

**CITY OF MINERAL WELLS, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2016**



**GMS**

CERTIFIED PUBLIC  
ACCOUNTANTS

GEORGE | MORGAN | SNEED

**CITY OF MINERAL WELLS, TEXAS**

Annual Financial Report  
For the Year Ended September 30, 2016

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## **FINANCIAL SECTION**



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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council  
City of Mineral Wells, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, Texas, (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, Texas, as of September 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9, budgetary comparison schedule - general fund, schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System, Schedule of Contributions – Texas Municipal Retirement System, Schedule of the City's Proportionate Share of the Net Pension Liability – Texas Emergency Services Retirement System and Schedule of Contributions – Texas Emergency Services Retirement System on pages 51-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial



statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*George Morgan Jones, P.C.*

Weatherford, Texas  
February 17, 2017

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## **Management's Discussion and Analysis**

As management of the City of Mineral Wells ("City"), we offer readers of the City's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2016.

### **Financial Highlights**

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$80,461,464 (net position). Of this amount, \$8,824,224 (unrestricted net position) may be used to meet the City's ongoing obligations.

The City's total net position decreased by \$242,882. The City's operations decreased governmental activities by \$1,076,212 and increased the business-type activities by \$833,330.

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$4,216,889. \$2,682,422 is available for spending at the City's discretion (unassigned fund balance).

At the end of the fiscal year, unassigned fund balance for the General Fund is \$2,663,327 or 23 percent of total General Fund expenditures.

### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Mineral Wells' basic financial statements. The City of Mineral Wells basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

*Government-Wide Financial Statements.* The government-wide financial statements are designed to provide a broad overview of the City's finances, in a manner similar to private sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the City's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the year. All changes in net position are reported as soon as the event causing the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., uncollected taxes).

The government-wide financial statements consist of the City of Mineral Wells (known as the primary government) and the Mineral Wells Community Development Corporation and the Palo Pinto County Municipal Water District No. 1 ("Water District") for which the City of Mineral Wells is accountable. The Mineral Wells Community Development Corporation is reported separately from the financial information presented for the primary government. The Water District, although legally separate, functions for all practical purposes as a department of the City of Mineral Wells, and therefore has been included as an integral part of the primary government. Additional information about the Water District is available in its separately issued audited financial statements.

The government-wide financial statements are presented on pages 10 – 12 of this report.

*Fund Financial Statements.* A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local



governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

*Governmental Funds.* Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and the Debt Service Fund, which are considered to be major funds. Individual fund data for the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriations budget for its General Fund. A budgetary comparison statement has been provided for the General Fund.

The basic governmental financial statements can be found on pages 13 – 16 of this report.

*Proprietary Funds.* The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer Operations, for Airport Operations, and for the Water District. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for worker's compensation self-insurance and employee health, dental and life insurance. The City does not offer post-employment benefits other than pension benefits. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net position, while the net revenue (expenses) of the internal service fund is reported with governmental activities in the funds.

The Proprietary Fund Financial Statements provide information for the Water/Sewer Enterprise Fund, the Airport Operations Enterprise Fund and the Water District as business-type activities. The information provided is the same type as the information in the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 17 – 20 of this report.

*Notes to the Financial Statements.* The notes provide additional information that is essential to a full understanding of the audited financial statements. The notes can be found on pages 21 – 50 of this report.

*Other Information.* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on Exhibits F-1 through F-5 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Mineral Wells, assets exceed liabilities by \$80,461,464 at September 30, 2016.

The largest portion of the City's net position (85 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$3,356,815 of the City's net position represents resources that are subject to external restrictions on how they may be used. The \$8,824,224 balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. The following is a summary of the City's Statement of Net Position.

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2016	2015	2016	2015	2016	2015
<i>Current and Other Assets</i>	\$ 8,602,513	\$ 10,330,554	\$ 26,645,062	10,652,008	35,247,575	20,982,562
<i>Capital Assets</i>	28,104,313	28,118,249	47,434,500	46,734,628	75,538,813	74,852,877
<b>Total Assets</b>	<u>\$ 36,706,826</u>	<u>\$ 38,448,803</u>	<u>\$ 74,079,562</u>	<u>\$ 57,386,636</u>	<u>\$ 110,786,388</u>	<u>\$ 95,835,439</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 1,598,526</u>	<u>\$ 548,433</u>	<u>\$ 719,296</u>	<u>\$ 240,798</u>	<u>\$ 2,317,822</u>	<u>\$ 789,231</u>
<i>Long-Term Liabilities</i>	\$ 5,708,584	\$ 5,238,017	\$ 24,629,375	8,528,194	30,337,959	13,766,211
<i>Other Liabilities</i>	537,671	798,257	1,185,222	1,029,589	1,722,893	1,827,846
<b>Total Liabilities</b>	<u>\$ 6,246,255</u>	<u>\$ 6,036,274</u>	<u>\$ 25,814,597</u>	<u>\$ 9,557,783</u>	<u>\$ 32,060,852</u>	<u>\$ 15,594,057</u>
<b>Deferred Inflows of Resources</b>	<u>\$ 401,776</u>	<u>\$ 227,429</u>	<u>\$ 180,118</u>	<u>\$ 98,838</u>	<u>\$ 581,894</u>	<u>\$ 326,267</u>
<b>Net Position</b>						
<i>Capital Assets Net of Related Debt</i>	\$ 28,104,313	\$ 27,909,094	\$ 40,176,112	39,351,862	68,280,425	67,260,956
<i>Restricted</i>	1,069,061	1,338,987	2,287,754	1,510,429	3,356,815	2,849,416
<i>Unrestricted</i>	2,483,947	3,485,452	6,340,277	7,108,522	8,824,224	10,593,974
<b>Total Net Position</b>	<u>\$ 31,657,321</u>	<u>\$ 32,733,533</u>	<u>\$ 48,804,143</u>	<u>\$ 47,970,813</u>	<u>\$ 80,461,464</u>	<u>\$ 80,704,346</u>

At the end of the fiscal year, the City was able to report positive balances in net position, for the government as a whole, as well as for its separate governmental and business-type activities.



The following is a summary of the City's Statement of Activities.

<b>Changes in Net Position</b>						
	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,375,755	\$ 1,275,522	\$ 11,810,942	\$ 12,661,519	\$ 13,186,697	\$ 13,937,041
Operating grants and contributions	333,852	272,405	-	-	333,852	272,405
Capital grants and contributions	50,000	50,000	340,060	2,147,406	390,060	2,197,406
<b>General revenues:</b>						
Property taxes	3,550,586	3,360,302	-	-	3,550,586	3,360,302
Other taxes	4,501,678	3,729,419	-	-	4,501,678	3,729,419
Other	348,489	581,853	101,441	180,994	449,930	762,847
<b>Total revenues</b>	<b>10,160,360</b>	<b>9,269,501</b>	<b>12,252,443</b>	<b>14,989,919</b>	<b>22,412,803</b>	<b>24,259,420</b>
<b>Expenses:</b>						
Administrative	2,043,464	1,663,317	-	-	2,043,464	1,663,317
Public safety	4,639,276	4,789,964	-	-	4,639,276	4,789,964
Highways/streets	2,405,576	2,548,686	-	-	2,405,576	2,548,686
Public works	1,031,544	1,110,906	-	-	1,031,544	1,110,906
Economic development	207,751	48,393	-	-	207,751	48,393
Culture and recreation	1,647,502	1,718,045	-	-	1,647,502	1,718,045
Interest on long-term debt	(6,670)	-	-	-	(6,670)	-
Water and sewer	-	-	8,231,125	8,635,757	8,231,125	8,635,757
Airport	-	-	942,545	958,548	942,545	958,548
PPCMWD No. 1	-	-	1,513,572	1,482,603	1,513,572	1,482,603
<b>Total expenses</b>	<b>11,968,443</b>	<b>11,879,311</b>	<b>10,687,242</b>	<b>11,076,908</b>	<b>22,655,685</b>	<b>22,956,219</b>
<i>Change in net position before transfers</i>	<i>(1,808,083)</i>	<i>(2,609,810)</i>	<i>1,565,201</i>	<i>3,913,011</i>	<i>(242,882)</i>	<i>1,303,201</i>
<i>Transfers</i>	<i>731,871</i>	<i>502,713</i>	<i>(731,871)</i>	<i>(502,713)</i>	<i>-</i>	<i>-</i>
<i>Change in net position</i>	<i>(1,076,212)</i>	<i>(2,107,097)</i>	<i>833,330</i>	<i>3,410,298</i>	<i>(242,882)</i>	<i>1,303,201</i>
<i>Prior Period Adjustments</i>	<i>-</i>	<i>(887,352)</i>	<i>-</i>	<i>(382,734)</i>	<i>-</i>	<i>(1,270,086)</i>
<i>Net position - Beginning</i>	<i>32,733,533</i>	<i>35,727,982</i>	<i>47,970,813</i>	<i>44,943,249</i>	<i>80,704,346</i>	<i>80,671,231</i>
<i>Net position -Ending</i>	<i>\$ 31,657,321</i>	<i>\$ 32,733,533</i>	<i>\$ 48,804,143</i>	<i>\$ 47,970,813</i>	<i>\$ 80,461,464</i>	<i>\$ 80,704,346</i>

## **Financial Analysis of the Government's Funds**

*Governmental Funds.* The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balances of the General Fund is \$2,663,327 while total fund balance reached \$3,287,757. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 23 percent of total general fund expenditures, while total fund balance represents 28 percent of that same amount.

### **Other Items**

The Debt Service Fund has a total fund balance of \$81,454 all of which is restricted for the payment of debt service.

*Proprietary Funds.* The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year for Water/Sewer Operations, Airport Operations and Water District are \$4,256,146, \$419,600 and \$1,386,426 respectively.

### **General Fund Budgetary Highlights**

It is the practice of the City to budget very conservatively. Revenues in 2015-16 were 5 percent less than budgeted with sales tax coming in at \$401,885 less than budgeted. Actual operating expenses were 10 percent lower than budgeted. While the City budgeted \$1,075,586 of appropriated fund balance the City's actual change in fund balance was a decrease of \$1,280,847.

### **Capital Asset and Debt Administration**

*Capital Assets.* The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016 amounts to \$75,538,813 (net of depreciation). This investment in capital assets includes land, buildings, equipment, streets and water/sewer systems, airport runways, and improvements other than buildings.

The General Fund acquired software, a server, an ambulance and library books.

The Water and Sewer fund purchased 2 vehicles, a skid steer and other equipment.

The Airport acquired a Fuel truck and upgraded the fire alarm.

Construction in progress on roof replacement was \$1,287,014.

Additional information on the City's capital assets can be found in Note 5 of this report.

*Long-Term Debt.* At the end of the fiscal year, the City had total outstanding debt of \$26,362,626. Included in the City's long-term debt are capital leases in the amount of \$214,061. All of which are in the business-type activities for T-hangars and a refueling truck. \$2,627,696 of the long-term debt is in the form of loans from the Texas Capital Fund that were used to acquire and/or rehabilitate facilities to attract and/or retain businesses. The remainder of the debt, \$23,520,869 represents Palo Pinto County Municipal Water District No. 1 revenue bonds.



The City maintains an “A+” rating from Standard & Poor’s and “AA-” from Fitch Ratings for its general obligation refunding bonds. The Water District has an “A” rating from Standard and Poor’s and “A+” from Fitch Ratings for its revenue bonds. The District’s rating was downgraded to “A+” from “AA-” by Fitch Ratings citing the District’s growing debt for the Turkey Peak Project, weakened City finances, among other things.

Additional information on the City’s long-term debt can be found in Note 7 of this report.

### **Economic Factors and Next Year’s Budgets and Rates**

The City of Mineral Wells had previously demonstrated sustained economic recovery from the 2008 recession, which resulted in various economic development and business/industry expansions. However, the most recent downturn in the petroleum industry has had some effects on the City’s economy. For example, local sales tax receipts have been flat. Despite this current economic ambiguity, the City has been able to accumulate, retain, and prudently invest General Fund balances of more than \$2.7 million, providing stable financial reserves far in excess of the reserve funds recommended by accepted governmental accounting standards. Ad valorem tax rates and collections have remained relatively steady over the past few years.

Despite the recent uncertainty in the General Fund revenues, the City has cautiously undertaken some additional activities that were deferred in previous years. Several personnel-related initiatives were funded, as well as the modest acquisition of capital equipment, various facility improvements and the resumption of selected street reconstruction projects. However, management is monitoring the economic situation and will make adjustments in spending as necessary.

Relative to the Water/Sewer Utility Fund, the City has continued funding the Turkey Peak Reservoir Project by maintaining water rate. Additionally, due to the resolution of the latest record-breaking drought, a water rate increase implemented during the 2014-2015 budget year to fund alternative water sources and treatment has been rescinded. A comprehensive water/sewer rate study is also being evaluated to ensure proper future funding for the Turkey Peak Reservoir Project, as well as adequately supporting the associated water/sewer utility departments’ needs.

In regards to the Airport Fund, fuel sales will remain below historical averages but sales will be sufficient to support Airport operations. However, due to the lower wholesale price of fuel, we anticipate overall aviation fuel sales to increase. Specific improvements to the Airport, such as terminal repairs, have been primarily funded by grants and insurance proceeds. These improvements are intended to increase overall usage of the Airport, which will in turn lead to increased revenues generated by the Airport.

Additionally, the City is investigating the feasibility of implementing a Drainage Utility to fund necessary improvements to the storm water collection system.

The City has successfully maintained basic service levels during the past period of uncertainty and diminished resources. Going forward, as the economy continues to improve and revenues return to their pre-recession levels, the City is poised to grow and expand in a conservatively managed and fiscally-responsible manner.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Mineral Wells’ finances. Questions concerning information in this report should be addressed to the Finance Director, City of Mineral Wells, P.O. Box 459, Mineral Wells, Texas 76068.

## **BASIC FINANCIAL STATEMENTS**

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CITY OF MINERAL WELLS, TEXAS  
Statement of Net Position  
September 30, 2016

	Primary Government			Component Unit
	Governmental	Business-type	Total	Community Development Corporation
	Activities	Activities		
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 3,936,626	\$ 4,129,581	\$ 8,066,207	\$ 526,608
Investments	1,197,279	2,209,935	3,407,214	-
Receivables (Net of allowances for uncollectibles)				
Property taxes	131,309	-	131,309	-
Sales taxes	514,432	-	514,432	46,124
Franchise taxes	166,283	-	166,283	-
Accounts	283,436	973,053	1,256,489	-
Leases	2,627,694	-	2,627,694	-
Miscellaneous	71,693	48,561	120,254	-
Inventory	15,004	329,767	344,771	-
Prepaid items	-	201,900	201,900	-
Internal Balances	(341,243)	341,243	-	-
Restricted Assets, Cash and Investments:				
Cash and cash equivalents	-	15,606,802	15,606,802	-
Investments	-	2,804,220	2,804,220	-
Capital assets:				
Nondepreciable	3,117,427	13,129,122	16,246,549	-
Depreciable, net of accumulated depreciation	24,986,886	34,305,378	59,292,264	-
<b>Total Assets</b>	<u>36,706,826</u>	<u>74,079,562</u>	<u>110,786,388</u>	<u>572,732</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred outflows related to pensions	1,598,526	719,296	2,317,822	-
<b>Total Deferred Outflows of Resources</b>	<u>1,598,526</u>	<u>719,296</u>	<u>2,317,822</u>	<u>-</u>
<b>LIABILITIES:</b>				
Accounts Payable	327,035	469,925	796,960	-
Wages and fringe benefits payable	183,240	85,170	268,410	-
Unearned revenue	-	113,661	113,661	-
Due to other governments	27,396	-	27,396	-
Current Liabilities Payable from Restricted Assets:				
Interest payable	-	207,458	207,458	-
Customer deposits	-	309,008	309,008	-
Noncurrent liabilities:				
Due within one year	384,299	1,117,662	1,501,961	-
Due in more than one year	5,324,285	23,511,713	28,835,998	-
<b>Total Liabilities</b>	<u>6,246,255</u>	<u>25,814,597</u>	<u>32,060,852</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred inflows related to pensions	401,776	180,118	581,894	-
<b>Total Deferred Inflows of Resources</b>	<u>401,776</u>	<u>180,118</u>	<u>581,894</u>	<u>-</u>
<b>NET POSITION:</b>				
Investments in Capital Assets, Net of Debt	28,104,313	40,176,112	68,280,425	-
Restricted Net Position (Expendable)	548,263	2,287,754	2,836,017	-
Restricted Net Position (Nonexpendable)	520,798	-	520,798	-
Unrestricted Net Position	2,483,947	6,340,277	8,824,224	572,732
<b>Total Net Position</b>	<u>\$ 31,657,321</u>	<u>\$ 48,804,143</u>	<u>\$ 80,461,464</u>	<u>\$ 572,732</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MINERAL WELLS, TEXAS  
Statement of Activities  
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
Administrative	\$ 912,823	\$ 41,212	\$ -	\$ -
Finance	582,566	-	-	-
Fleet Maintenance	619,681	-	-	-
Police	2,706,800	409,633	137,872	-
Fire & Emergency Medical Services	1,612,089	588,662	143,230	50,000
Inspections	320,387	84,814	-	-
Information technology	548,075	-	-	-
Streets	2,405,576	-	-	-
Sanitation	128,507	47,250	-	-
Parks & Recreation	988,034	88,517	-	-
Cemetery	283,356	109,615	-	-
Library	463,363	6,052	30,000	-
Economic Development	207,751	-	22,750	-
Hotel/Motel Occupancy	196,105	-	-	-
Interest and fiscal charges	(6,670)	-	-	-
Total governmental activities	<u>11,968,443</u>	<u>1,375,755</u>	<u>333,852</u>	<u>50,000</u>
Business-type activities:				
Water and Sewer	8,231,125	8,277,356	-	-
Airport	942,545	722,537	-	49,970
PPCMWD No. 1	<u>1,513,572</u>	<u>2,811,049</u>	<u>-</u>	<u>290,090</u>
Total business-type activities	<u>10,687,242</u>	<u>11,810,942</u>	<u>-</u>	<u>340,060</u>
Total primary government	<u>\$ 22,655,685</u>	<u>\$ 13,186,697</u>	<u>\$ 333,852</u>	<u>\$ 390,060</u>
<b>Component Unit</b>				
Economic Development	\$ 250	\$ -	\$ -	\$ -
Total Component Unit	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property Taxes, levied for general purposes  
Property Taxes, levied for debt service  
Property Taxes, levied for TIF Zone #2  
Sales and Use Taxes  
Franchise Taxes  
Hotel Motel Taxes  
Investment Earnings  
Gain of Sale of Capital Assets  
Insurance recoveries  
Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1, 2015

Net Position September 30, 2016

The notes to the financial statements are an integral part of this statement.



## EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Community Development Corporation
\$ (871,611)	\$	\$ (871,611)	\$ -
(582,566)		(582,566)	-
(619,681)		(619,681)	-
(2,159,295)		(2,159,295)	-
(830,197)		(830,197)	-
(235,573)		(235,573)	-
(548,075)		(548,075)	-
(2,405,576)		(2,405,576)	-
(81,257)		(81,257)	-
(899,517)		(899,517)	-
(173,741)		(173,741)	-
(427,311)		(427,311)	-
(185,001)		(185,001)	-
(196,105)		(196,105)	-
6,670		6,670	-
<u>(10,208,836)</u>	<u>-</u>	<u>(10,208,836)</u>	<u>-</u>
	46,231	46,231	-
	(170,038)	(170,038)	-
	1,587,567	1,587,567	-
<u>-</u>	<u>1,463,760</u>	<u>1,463,760</u>	<u>-</u>
\$ <u>(10,208,836)</u>	\$ <u>1,463,760</u>	\$ <u>(8,745,076)</u>	\$ <u>-</u>
\$ -	\$ -	\$ -	\$ (250)
\$ -	\$ -	\$ -	\$ (250)
\$ 3,429,333	\$ -	\$ 3,429,333	\$ -
35,148	-	35,148	-
86,105	-	86,105	-
3,047,057	-	3,047,057	268,161
1,257,531	-	1,257,531	-
197,090	-	197,090	-
26,586	33,236	59,822	1,411
2,200	-	2,200	-
187,278	66,999	254,277	-
132,425	1,206	133,631	-
731,871	(731,871)	-	-
<u>9,132,624</u>	<u>(630,430)</u>	<u>8,502,194</u>	<u>269,572</u>
(1,076,212)	833,330	(242,882)	269,322
<u>32,733,533</u>	<u>47,970,813</u>	<u>80,704,346</u>	<u>303,410</u>
\$ <u>31,657,321</u>	\$ <u>48,804,143</u>	\$ <u>80,461,464</u>	\$ <u>572,732</u>



## EXHIBIT C-1

CITY OF MINERAL WELLS, TEXAS  
Balance Sheet  
Governmental Funds  
September 30, 2016

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Assets:				
Cash and cash equivalents	\$ 2,719,792	\$ 80,109	\$ 263,210	\$ 3,063,111
Investments	247,484	34	499,480	746,998
Receivables (Net of allowances)				
Property Taxes	56,725	6,777	67,807	131,309
Sales Taxes	514,432	-	-	514,432
Franchise Taxes	166,283	-	-	166,283
Accounts	283,436	-	-	283,436
Lease	-	2,627,694	-	2,627,694
Miscellaneous	71,094	599	-	71,693
Inventory Supplies, at Cost	15,004	-	-	15,004
Due from other funds	169,873	-	17,181	187,054
Total assets	<u>\$ 4,244,123</u>	<u>\$ 2,715,213</u>	<u>\$ 847,678</u>	<u>\$ 7,807,014</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 322,119	\$ -	\$ -	\$ 322,119
Wages and Fringe Benefits Payable	183,240	-	-	183,240
Due to other funds	80,319	-	-	80,319
Due to State	26,897	499	-	27,396
Total liabilities	<u>612,575</u>	<u>499</u>	<u>-</u>	<u>613,074</u>
Deferred inflows of resources:				
Deferred revenue	<u>343,791</u>	<u>2,633,260</u>	<u>-</u>	<u>2,977,051</u>
Fund Balances:				
Nonspendable	15,004	-	520,798	535,802
Restricted	153,459	81,454	307,785	542,698
Assigned	455,967	-	-	455,967
Unassigned	2,663,327	-	19,095	2,682,422
Total fund balances	<u>3,287,757</u>	<u>81,454</u>	<u>847,678</u>	<u>4,216,889</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 4,244,123</u>	<u>\$ 2,715,213</u>	<u>\$ 847,678</u>	<u>\$ 7,807,014</u>

The notes to the financial statements are an integral part of this statement.

**EXHIBIT C-2**

CITY OF MINERAL WELLS, TEXAS  
 Reconciliation of the Governmental Funds Balance Sheet  
 To the Statement of Net Position  
 September 30, 2016

Total Fund Balances - Governmental Funds		\$ 4,216,889
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$68,233,517 and the accumulated depreciation was \$40,129,204.		28,104,313
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Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. The details of these differences are as follows:

Compensated absences	(73,308)	
Sales tax and use refund payable	<u>(1,034,712)</u>	
		(1,108,020)

Property taxes, franchise taxes, emergency medical services and cemetery receivables are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.		349,355
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Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$1,972,868 and a deferred outflow of resources related to pensions of \$1,598,526 and a deferred inflow of resources related to pensions of \$401,776. This amounted to a decrease in net position.		(776,118)
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The City uses an internal service fund to charge the costs of insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		870,902
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Net Position of Governmental Activities		<u>\$ 31,657,321</u>
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The notes to the financial statements are an integral part of this statement.

## EXHIBIT C-3

CITY OF MINERAL WELLS, TEXAS  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended September 30, 2016

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	\$ 3,419,844	\$ 37,163	\$ 86,105	\$ 3,543,112
Sales and use tax	2,973,115	-	-	2,973,115
Franchise	1,253,662	-	-	1,253,662
Hotel motel taxes	-	-	197,090	197,090
Licenses and Permits	84,814	-	-	84,814
Intergovernmental Revenue	364,255	-	22,750	387,005
Charges for service	786,613	-	-	786,613
Fines	359,512	-	-	359,512
Interest income	23,797	399	2,390	26,586
Special Assessments	-	210,003	-	210,003
Cemetery	92,188	-	9,036	101,224
Miscellaneous revenues	121,127	-	11,298	132,425
Total revenues	<u>9,478,927</u>	<u>247,565</u>	<u>328,669</u>	<u>10,055,161</u>
Expenditures:				
Current				
Administrative	1,796,555	-	-	1,796,555
Finance	623,072	-	-	623,072
Fleet Maintenance	625,330	-	-	625,330
Police	2,805,309	-	7,111	2,812,420
Fire & Emergency Medical Services	1,740,095	-	-	1,740,095
Inspections	325,687	-	-	325,687
Information technology	578,213	-	-	578,213
Streets	1,159,568	-	163,051	1,322,619
Sanitation	128,373	-	-	128,373
Parks & Recreation	1,023,804	-	-	1,023,804
Cemetery	284,276	-	-	284,276
Library	455,229	-	-	455,229
Economic Development	-	-	207,751	207,751
Hotel/Motel Occupancy	-	-	196,105	196,105
Debt service:				
Principal	36,339	374,089	-	410,428
Interest and fiscal charges	258	2,621	-	2,879
Total expenditures	<u>11,582,108</u>	<u>376,710</u>	<u>574,018</u>	<u>12,532,836</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(2,103,181)</u>	\$ <u>(129,145)</u>	\$ <u>(245,349)</u>	\$ <u>(2,477,675)</u>
Other financing sources (uses):				
Proceeds from sale of general capital assets	2,200	-	-	2,200
Insurance recoveries	187,278	-	-	187,278
Issuance of capital lease	-	-	-	-
Transfers in	832,856	-	200,000	1,032,856
Transfers out	(200,000)	-	(100,985)	(300,985)
Total other financing sources (uses)	<u>822,334</u>	<u>-</u>	<u>99,015</u>	<u>921,349</u>
Net change in fund balances	(1,280,847)	(129,145)	(146,334)	(1,556,326)
Fund balance, October 1, 2015	<u>4,568,604</u>	<u>210,599</u>	<u>994,012</u>	<u>5,773,215</u>
Fund balance, September 30, 2016	\$ <u>3,287,757</u>	\$ <u>81,454</u>	\$ <u>847,678</u>	\$ <u>4,216,889</u>

The notes to the financial statements are an integral part of this statement.

**EXHIBIT C-4**

CITY OF MINERAL WELLS, TEXAS  
 Reconciliation of Statement of Revenues,  
 Expenditures and Changes in Fund Balances of  
 The Governmental Funds to the Statement of Activities  
 For the year ended September 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ (1,556,326)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$1,706,719 of capital outlays and \$200,425 of debt principal payments is to increase net position.	1,907,144
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,720,655)
Current year interest payable, bond premiums and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The \$820 decrease in interest payable, \$8,730 decrease in bond premiums, and \$18,329 increase in compensated absences decrease net position.	(8,779)
A \$1,034,712 refund of sales tax are not due and payable in the current period, and, therefore is not reported as a liability in the funds. The decrease of the refund of sales tax increases net position.	73,942
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	51,781
GASB required the City to recognize their net pension liability, deferred outflow of resources related to pensions and deferred inflows of resources related to pensions. The changes in these balances decrease net position.	(70,089)
The City uses an internal service fund to charge the costs of insurance to individual funds. The adjustment to reflect the consolidation of the internal service fund activities related to governmental activities increases net position.	246,770
Change in Net Position of Governmental Activities	<u><u>\$ (1,076,212)</u></u>

The notes to the financial statements are an integral part of this statement.



## Exhibit D-1

CITY OF MINERAL WELLS, TEXAS  
Statement of Net Position  
Proprietary Funds  
September 30, 2016

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$ 2,636,796	\$ 29,991	\$ 1,462,794	\$ 4,129,581	\$ 873,515
Investments	887,755	247,870	1,074,310	2,209,935	450,281
Receivables (Net of allowances):					
Accounts	908,481	61,907	2,665	973,053	-
Miscellaneous	-	48,561	-	48,561	-
Inventory	197,815	30,084	101,868	329,767	-
Due from other funds	24,929	38,209	-	63,138	-
Prepaid items	196,500	-	5,400	201,900	-
Restricted Assets, Cash and Investments:					
Cash and cash equivalents	-	-	15,606,802	15,606,802	
Investments	309,008	-	2,495,212	2,804,220	
Total current assets	<u>5,161,284</u>	<u>456,622</u>	<u>20,749,051</u>	<u>26,366,957</u>	<u>1,323,796</u>
Noncurrent Assets:					
Capital assets, at cost:					
Land	1,355,836	194,863	2,379,793	3,930,492	-
Buildings and improvements	1,685,934	1,838,189	98,455	3,622,578	-
Improvements other than Buildings	14,974,365	55,070	-	15,029,435	-
Infrastructure	-	5,943,565	-	5,943,565	-
Distribution System	13,386,593	-	24,575,874	37,962,467	-
Collection System	6,317,287	-	-	6,317,287	-
Equipment & Vehicles	1,083,266	396,459	565,437	2,045,162	-
Furnitures & Fixtures	49,597	-	-	49,597	-
Construction-in-Progress	268,389	146,818	8,783,423	9,198,630	-
Less: accumulated depreciation	(18,353,271)	(3,809,379)	(14,502,063)	(36,664,713)	-
Capital assets, net	<u>20,767,996</u>	<u>4,765,585</u>	<u>21,900,919</u>	<u>47,434,500</u>	<u>-</u>
Total noncurrent assets	<u>20,767,996</u>	<u>4,765,585</u>	<u>21,900,919</u>	<u>47,434,500</u>	<u>-</u>
Total assets	<u>25,929,280</u>	<u>5,222,207</u>	<u>42,649,970</u>	<u>73,801,457</u>	<u>1,323,796</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Deferred outflow related to pensions	686,917	32,379	-	719,296	-
Total deferred outflows of resources	<u>686,917</u>	<u>32,379</u>	<u>-</u>	<u>719,296</u>	<u>-</u>

The notes to the financial statements are an integral part of this statement.

Exhibit D-1

CITY OF MINERAL WELLS, TEXAS  
Statement of Net Position  
Proprietary Funds  
September 30, 2016

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	180,144	16,683	273,098	469,925	4,916
Wages and Fringe Benefits Payable	77,759	3,299	4,112	85,170	-
Unearned revenue			113,661	113,661	
Compensated absences payable	34,107	1,737	-	35,844	-
Due to other funds	-	-	-	-	169,873
Current Liabilities Payable from Restricted Assets:					
Current portion of Bonds	-	-	1,035,000	1,035,000	-
Current portion of Capital Lease Payable	-	46,818	-	46,818	-
Interest payable	-	-	207,458	207,458	-
Customer Deposits	309,008	-	-	309,008	-
Total current liabilities	601,018	68,537	1,633,329	2,302,884	174,789
Noncurrent Liabilities:					
Long-term Liabilities (Net of Current Portion)					
Net Pension Liability	819,187	39,414	-	858,601	-
Bonds (Net of Current portion)	-	-	22,470,000	22,470,000	-
Capital Lease Payable (Net of current portion)	-	167,243	-	167,243	-
Bond Premium	-	-	15,869	15,869	-
Total noncurrent liabilities	819,187	206,657	22,485,869	23,511,713	-
Total liabilities	1,420,205	275,194	24,119,198	25,814,597	174,789
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Deferred inflow related to pensions	171,850	8,268	-	180,118	-
Total deferred inflows of resources	171,850	8,268	-	180,118	-
<b>NET POSITION:</b>					
Investment in capital assets, net of debt	20,767,996	4,551,524	14,856,592	40,176,112	-
Restricted for debt service (Expendable)	-	-	2,287,754	2,287,754	
Unrestricted	4,256,146	419,600	1,386,426	6,062,172	1,149,007
Total net position	\$ 25,024,142	\$ 4,971,124	\$ 18,530,772	\$ 48,526,038	\$ 1,149,007
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				278,105	
Net position of business-type activities				\$ 48,804,143	

The notes to the financial statements are an integral part of this statement.

## Exhibit D-2

CITY OF MINERAL WELLS, TEXAS  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the year ended September 30, 2016

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
Operating revenues:					
Charges for sales and services:					
Water Sales	\$ 5,245,876	\$ -	\$ 2,809,349	\$ 8,055,225	\$ -
Connections	13,410	-	-	13,410	-
Sewer Revenues	2,698,010	-	-	2,698,010	-
Gasoline and Oil	-	445,816	-	445,816	-
Rentals	-	267,749	-	267,749	-
Miscellaneous Revenues	320,060	8,972	1,700	330,732	-
Other Services	-	-	-	-	2,001,024
Total operating revenue	<u>8,277,356</u>	<u>722,537</u>	<u>2,811,049</u>	<u>11,810,942</u>	<u>2,001,024</u>
Operating expenses:					
Public Works Administration	3,091,150	-	249,773	3,340,923	-
Water Distribution	1,063,972	-	-	1,063,972	-
Hilltop Water Treatment	1,166,797	-	-	1,166,797	-
Wastewater Treatment	1,339,914	-	-	1,339,914	-
Facility Maintenance	477,671	-	-	477,671	-
City Utility Service	412,382	-	-	412,382	-
Airport Operations	-	611,840	-	611,840	-
Self-Insurance	-	-	-	-	1,633,303
Depreciation	798,290	324,946	507,348	1,630,584	-
Total operating expenses	<u>8,350,176</u>	<u>936,786</u>	<u>757,121</u>	<u>10,044,083</u>	<u>1,633,303</u>
Operating income	<u>(72,820)</u>	<u>(214,249)</u>	<u>2,053,928</u>	<u>1,766,859</u>	<u>367,721</u>
Nonoperating revenues (expenses):					
Interest Earned	11,149	923	21,164	33,236	1,770
Oil & Gas Leases	-	1,206	-	1,206	-
Insurance Recoveries	18,458	48,541	-	66,999	-
Interest on Capital Leases	-	(14,049)	-	(14,049)	-
Bond Issuance Costs	-	-	(180,475)	(180,475)	-
Interest on Bonds	4,620	-	(575,976)	(571,356)	-
Total nonoperating revenues (expenses)	<u>34,227</u>	<u>36,621</u>	<u>(735,287)</u>	<u>(664,439)</u>	<u>1,770</u>
Income before contributions and transfers	<u>(38,593)</u>	<u>(177,628)</u>	<u>1,318,641</u>	<u>1,102,420</u>	<u>369,491</u>
Contributions and transfers (to) from other funds:					
Capital Grants & Contributions	-	49,970	290,090	340,060	-
Transfers Out	<u>(700,000)</u>	<u>(31,871)</u>	<u>-</u>	<u>(731,871)</u>	<u>-</u>
Change in Net Position	<u>(738,593)</u>	<u>(159,529)</u>	<u>1,608,731</u>	<u>710,609</u>	<u>369,491</u>
Prior period adjustment			-	-	
Net Position, October 1, 2015	<u>25,762,735</u>	<u>5,130,653</u>	<u>16,922,041</u>	<u>47,815,429</u>	<u>779,516</u>
Net Position, September 30, 2016	<u>\$ 25,024,142</u>	<u>\$ 4,971,124</u>	<u>\$ 18,530,772</u>	<u>\$ 48,526,038</u>	<u>\$ 1,149,007</u>
Reconciliation to government-wide statement of activities:					
Change in Net Position				\$ 710,609	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				122,721	
				<u>\$ 833,330</u>	

The notes to the financial statements are an integral part of this statement.



## EXHIBIT D-3

CITY OF MINERAL WELLS, TEXAS  
Statement of Cash Flows  
Proprietary Funds  
For the year ended September 30, 2016

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 8,730,617	\$ 711,950	\$ 2,833,511	\$ 12,276,078	\$ -
Cash received for interfund services provided	-	-	-	-	2,001,024
Cash paid to suppliers	(5,418,596)	(463,472)	(170,600)	(6,052,668)	(1,504,455)
Cash paid to employees	(2,262,811)	(144,111)	(56,355)	(2,463,277)	-
Net cash provided by operating activities	1,049,209	104,367	2,606,556	3,760,132	496,569
Cash flow from noncapital financing activities:					
Increase (decrease) in due from other funds	-	-	-	-	-
Transfers out	(700,000)	(31,871)	-	(731,871)	-
Net cash provided (used) by noncapital financing activities	(700,000)	(31,871)	-	(731,871)	-
Cash flow from capital and related financing activities:					
Capital expenditures	(495,621)	(187,318)	(1,704,421)	(2,387,360)	-
Capital grants received	-	1,409	586,209	587,618	-
Proceeds from capital debt	-	-	17,100,000	17,100,000	-
Capital contributions	-	-	-	-	-
Paid to agent on bond issuance	-	-	(180,475)	(180,475)	-
Insurance proceeds received	18,458	48,541	-	66,999	-
Principal payments on long-term debt	(130,914)	(60,269)	(1,215,000)	(1,406,183)	-
Interest paid on long-term debt	(2,667)	(14,050)	(430,787)	(447,504)	-
Net cash (used) by capital and related financing activities	(610,744)	(211,687)	14,155,526	13,333,095	-
Cash flow from investing activities:					
Interest received	11,149	922	21,164	33,235	1,770
Income from oil and gas leases	-	1,206	-	1,206	-
Net cash provided by investing activities	11,149	2,128	21,164	34,441	1,770
Net increase (decrease) in cash and cash equivalents	(250,386)	(137,063)	16,783,246	16,395,797	498,339
Cash and cash equivalents, September 30, 2015	4,083,945	414,923	3,855,872	8,354,740	825,457
Cash and cash equivalents, September 30, 2016	\$ 3,833,559	\$ 277,861	\$ 20,639,118	\$ 24,750,538	\$ 1,323,796
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ (72,820)	\$ (214,249)	\$ 2,053,928	\$ 1,766,859	\$ 367,721
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	798,291	324,946	507,348	1,630,585	-
(Increase) decrease in accounts receivable	423,693	(10,587)	(1,824)	411,282	-
(Increase) decrease in miscellaneous receivables	-	-	-	-	4,186
(Increase) decrease in supplies inventory	(24,438)	3,983	-	(20,455)	-
(Increase) decrease in due from other funds	42,158	47,894	-	90,052	-
(Increase) decrease in prepaid items	(196,500)	-	(1,350)	(197,850)	119,746
Increase (decrease) in accounts payable	91,104	(41,392)	20,056	69,768	4,916
Increase (decrease) in wages and fringe benefits payable	(57,973)	(4,137)	4,112	(57,998)	-
Increase (decrease) in retainage payable	-	-	-	-	-
Increase (decrease) in deferred inflows	-	-	24,286	24,286	-
Increase (decrease) in compensated absences payable	7,483	(485)	-	6,998	-
Increase (decrease) in due to other funds	(5,123)	-	-	(5,123)	-
Increase (decrease) in customer meter deposits	29,568	-	-	29,568	-
Increase (decrease) in net pension balances	13,766	(1,606)	-	12,160	-
Total adjustments	1,122,029	318,616	552,628	1,993,273	128,848
Net cash provided by operating activities	\$ 1,049,209	\$ 104,367	\$ 2,606,556	\$ 3,760,132	\$ 496,569

The notes to the financial statements are an integral part of this statement.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Mineral Wells, Texas (the "City") was first incorporated in 1884 and adopted the Home Rule Charter (Vernon's Ann. Civ. St. art. et. seq.) on July 25, 1966. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety – police, fire, animal control and emergency medical services; street and drainage, water and sewer, sanitation, public health, parks and recreation, library, planning and zoning and general administrative services.

The City of Mineral Wells is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the City and its blended component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

*Discretely Presented Component Unit.*

The Mineral Wells Community Development Corporation (a nonprofit development corporation formed under the Development Corporation Act of 1979) was incorporated in 2014. The Corporation is governed by a Board of Directors appointed by the City Council. The Corporation's services are provided to stimulate economic growth in the City. Operation of the Corporation is funded by a 1/8 percent sales tax approved by voters. The Corporation is reported as a discretely presented component unit in the statement of net position and statement of activities.

*Blended Component Unit.*

The Palo Pinto County Municipal Water District No. 1 (the "District") is governed by a board appointed by the City of Mineral Wells' elected council. The rates for user charges and bond issuance authorizations are approved by the City's council and the legal liability for the District's debt remains with the City of Mineral Wells. The District is included in the City of Mineral Wells' "reporting entity" due to the financial accountability of the City of Mineral Wells for the District, and because the District provides services almost entirely for the benefit of the City of Mineral Wells. Approximately 85% of the District's water sales were to the City of Mineral Wells. The City has reported in its basic financial statements, the activities of the District for its fiscal period ending September 30, 2016, in a blended format.

Complete financial statements for the District may be obtained at the District's administrative offices:

Palo Pinto County Municipal Water District No. 1  
P.O. Box 387  
Mineral Wells, TX 76068

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Property taxes, sales and use taxes, hotel/motel occupancy taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives payment.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1:     SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for the operation of the water and sewer systems of the City.

The *Airport Operations Fund* accounts for the operations of the municipal airport.

The *Palo Pinto County Municipal Water District No. 1 fund* accounts for the water supply operations of the blended component unit.

Additionally, the government reports the following fund and fund types:

The *special revenue funds* are governmental funds that account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specific purposes.

The *permanent fund* is used to account for 25% of the proceeds from the sale of cemetery lots for Woodland Park Cemetery. Once a lot is sold, 75% of the proceeds are deposited in the City of Mineral Wells' general fund; the remaining 25% are recorded in the permanent fund. The proceeds are invested and any earnings on invested resources are transferred to the City's general fund to be used for perpetual care and maintenance of the cemetery. Principal amounts are permanently restricted.

The *internal service fund* accounts for workers' compensation premiums and health insurance premiums paid on behalf and reimbursed by other departments or agencies of the City.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

Amounts reported as program revenues include 1) charges for customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds, distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The principal operating revenues of the internal service fund are reimbursements from other departments for allocated workers' compensation and health insurance premiums. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use unrestricted resources first, and then restricted resources as they are needed.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Net Assets or Equity**

**1. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, including restricted assets. Amounts invested in Tex-Pool and TexStar public investment pools are considered cash and cash equivalents. The following is a reconciliation of cash and cash equivalents reported in the statement of net assets to the cash and cash equivalents reported in the statement of cash flows.

	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Internal Service Fund
Cash and cash equivalents	\$ 2,636,796	\$ 29,991	\$ 17,069,596	\$ 873,515
Investments	887,755	247,870	1,074,310	450,281
Restricted Investments	309,008	-	2,495,212	-
	<u>\$ 3,833,559</u>	<u>\$ 277,861</u>	<u>\$ 20,639,118</u>	<u>\$ 1,323,796</u>

**2. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in the enterprise fund that are delinquent for more than two months at year-end comprise the trade accounts receivable allowance for uncollectible accounts of \$56,924. The property tax receivable allowance is based upon historical experience and is equal to approximately 70% of outstanding delinquent property taxes at September 30. The property tax receivable allowance is \$132,358 in the general fund and \$15,812 in the debt service fund. The EMS receivable allowance of \$452,535 is comprised of accounts aged more than ninety days.

**3. Property Tax**

Ad valorem property taxes are levied each October 1, in conformity with Subtitle E, Texas Property Tax Code. The taxes are levied from valuations assessed as of the prior January 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1. Tax liens are automatic on January 1 each year.

**4. Inventory**

All inventories are valued at the lower of cost or market on the first-in, first-out method. The City's inventory is recorded under the purchase method. Under the purchase method the inventory is first recorded as an expense when purchased. A physical inventory is taken at the end of the fiscal year and the inventory



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

adjusted to reflect the value of inventory at that date. The inventories are recorded in the governmental fund statements do not reflect current appropriable resources therefore an equivalent portion of fund balance is nonspendable.

**5. *Prepaid items***

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. The cost of prepaid items are recorded as expenditures/expenses when consumed.

**6. *Capital Assets***

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary funds financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of two years or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the enterprise funds during the current fiscal year was \$585,405. Of this amount, \$0 was included as part of the cost of capital assets under construction.

The City has reported infrastructure capital assets acquired prior to the implementation of GASB Statement No. 34 at estimated historical cost.

Property, plant and equipment of the governmental activities, business-type activities and enterprise funds are depreciated using the straight-line method over the following estimated useful lives.

Building and improvements	10 - 50 years
Improvements other than buildings	20 - 50 years
Infrastructure	10 - 50 years
Distribution system	25 - 100 years
Collection system	50 years
Equipment and vehicles	5 -10 years
Furniture and fixtures	5 -10 years
Other improvements	10 - 20 years

**7. *Restricted Assets***

Certain resources set aside for the repayment of the City's and District's debt are classified as restricted assets

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**8. *Compensated Absences***

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. 5 days of vacation and 120 days of sick leave may be accumulated and carried forward. Accumulated vacation is paid upon separation from service; however sick leave is not paid upon separation from service. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**9. *Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuances cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**10. *Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**11. *Fund Balance – Governmental Fund***

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted – includes amounts constrained for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of another government.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Committed – includes amounts constrained to specific purposes by the City’s highest decision-making authority. The City Council is the City’s highest decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City’s Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.

Assigned – includes amounts for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance.

Unassigned – All amounts not included in other spendable classifications.

The details of the fund balances of the governmental funds are as follows:

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 15,004	\$ -	\$ -	\$ 15,004
Woodland Park Permanent Fund			520,798	520,798
Restricted:				
Debt Service		81,454		81,454
Police			9,994	9,994
TIF Zone #2			204,439	204,439
Economic Development			89,856	89,856
Community Services	153,459		1,085	154,544
Woodland Park Cemetery			2,411	2,411
Assigned				
Subsequent year budget deficit	455,967			455,967
Unassigned	2,663,327	-	19,095	2,682,422
Total Fund Balance	<u>\$ 3,287,757</u>	<u>\$ 81,454</u>	<u>\$ 847,678</u>	<u>\$ 4,216,889</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted fund balance to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been first spent out of committed funds, then assigned, and finally unassigned as needed.

The City Council adopted a minimum fund balance policy for the General Fund. The policy requires the City strive to maintain an unassigned fund balance equal to 25% of the General Fund annual operating expenditures. The City considers a balance of less than 16.67% as cause for concern, barring unusual or deliberate circumstances. The unassigned fund balance of the general fund at year end was 23% of expenditures.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**12. *Net Position***

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The following is a reconciliation of restricted fund balance reported in the governmental fund financial statements to restricted net position of the governmental activities reported in the government-wide financial statements.

Restricted Fund Balance (Exhibit C-1)	\$ 542,698
Adjustments	
Deferred property tax revenue restricted for debt service	5,565
Total adjustments	<u>5,565</u>
Restricted Net Position (Exhibit A-1)	<u>\$ 548,263</u>

**13. *Use of Estimates***

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates.

**NOTE 2: DEPOSITS AND INVESTMENTS**

**A. *Deposits***

As required by the City's investment policy, deposits were with the contracted depository bank in interest bearing accounts that are secured by FDIC coverage and by pledge of securities. The City's and the component unit's deposits were fully secured at the balance sheet date by FDIC coverage and by pledged securities.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's funds are required to be deposited and invested under the terms of a depository contract. At September 30, 2016, the City's deposits were fully insured or collateralized as required by the City's investment policy.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 2:     DEPOSITS AND INVESTMENTS (Continued)**

**B.     Investments**

The City and its component unit may invest its funds in the following:

- (1) U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations maturing in less than two years (except reserve, endowment and other long-term capital preservation funds which may invest up to five years);
- (2) Certificates of deposit issued by state or national banks domiciled in Texas, guaranteed or insured by FDIC and/or fully collateralized in accordance with applicable law.
- (3) Statewide public fund investment pools that are authorized and properly rated per applicable state law; as provided by Council resolution authorizing participation in such investment pool.

The City invests in the Texas Local Government Investment Pool (TexPool) and the Texas Short Term Asset Reserve Fund (TexSTAR), which are public funds investment pools. The Palo Pinto County Municipal Water District No. 1 invests in TexSTAR.

TexPool is a local government investment pool organized under the authority of the Interlocal Cooperation Act Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. All investments of the Pool are stated at amortized cost, which in most cases approximates the market value of the securities. The objective of TexPool is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by the State of Texas.

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. All securities in TexSTAR are marked to market daily using the fair value method, amortized cost, which generally approximated the market value of the securities, has been deemed to be a proxy for fair value. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured by TexSTAR.

Credit Risk– Investments

The City controls credit risk by limiting its investments to those described above which are permitted by the Texas Public Funds Investment Act.

Interest Rate Risk – Investments

The City manages interest rate risk by diversifying its portfolio and limiting its investments to the relatively low risk investments described above.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

The City's investments at September 30, 2016 included the following:

Investment	Credit Rating	Average Maturities	Percentage of Total Investments	Cost	Fair Value
City of Mineral Wells					
Tex-Pool	AAAm	44 days	7.24%	\$ 449,671	\$ 449,671
TexSTAR Pool	AAAm	43 days	35.29%	2,192,241	2,192,241
				<u>2,641,912</u>	<u>2,641,912</u>
Component Unit					
TexSTAR Pool	AAAm	43 days	57.47%	3,568,051	3,569,522
Total Investments			100.00%	<u>\$ 6,209,963</u>	<u>\$ 6,211,434</u>

**NOTE 3: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies in this category, deferred outflows related to pensions reported in the government-wide statement of net position and proprietary funds statement of net position.

In addition to liabilities, the statement of financial position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has two types of items in this category, unavailable revenues for governmental funds and deferred inflows related to pensions in the government-wide statement of net position and proprietary funds statements. At the end of the fiscal year, the components of deferred inflows in the governmental funds were as follows:

	Governmental Funds		
	General	Debt Service	Total Governmental Funds
Deferred property taxes receivable	\$ 52,796	\$ 5,566	\$ 58,362
Deferred franchise taxes receivable	105,530		105,530
Deferred EMS receivable	107,258		107,258
Deferred Cemetery receivable	35,970		35,970
Deferred municipal court receivable	42,237		42,237
Deferred leases receivable		2,627,694	2,627,694
Total deferred inflows of resources	<u>\$ 343,791</u>	<u>\$ 2,633,260</u>	<u>\$ 2,977,051</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 4: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2016, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Funds	169,873
Nonmajor governmental funds	General Fund	17,181
Total Governmental Funds		<u>\$ 187,054</u>
Water and Sewer	General Fund	\$ 24,929
Airport Operations	General Fund	38,209
Total Proprietary Funds		<u>\$ 63,138</u>

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2016, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Governmental Funds	\$ 985	occupancy taxes
General Fund	Water and Sewer	700,000	operating
General Fund	Airport Operations	31,871	operating
General Fund	Nonmajor Governmental Funds	100,000	police software
Nonmajor Governmental Funds	General Fund	200,000	street projects
Total Governmental Funds Transfers In		<u>\$ 1,032,856</u>	



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2016 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
<b>Non - Depreciable Assets:</b>					
Land	\$ 1,845,102	\$ -	\$ -	\$ -	\$ 1,845,102
Construction in Progress	237,467	1,034,858			1,272,325
Total non-depreciable assets	2,082,569	1,034,858	-	-	3,117,427
<b>Depreciable Assets:</b>					
Buildings and improvements	4,458,234	26,583	-	-	4,484,817
Improvements other than buildings	1,846,617	177,507		-	2,024,124
Infrastructure	52,137,900				52,137,900
Equipment and vehicles	5,610,372	458,553	(233,325)	-	5,835,600
Furniture and fixtures	624,431	9,218		-	633,649
Total capital assets being depreciated	64,677,554	671,861	(233,325)	-	65,116,090
<b>Accumulated Depreciation:</b>					
Buildings and improvements	(1,870,289)	(102,338)		-	(1,972,627)
Improvements other than buildings	(1,421,175)	(107,460)		-	(1,528,635)
Infrastructure	(30,109,406)	(1,245,721)		-	(31,355,127)
Equipment and vehicles	(4,828,141)	(194,626)	233,325	-	(4,789,442)
Furniture and fixtures	(412,863)	(70,510)		-	(483,373)
Total accumulated depreciation	(38,641,874)	(1,720,655)	233,325	-	(40,129,204)
Governmental activities capital assets, net	\$ 28,118,249	\$ (13,936)	\$ -	\$ -	\$ 28,104,313



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 5: CAPITAL ASSETS (Continued)**

Business-type activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	\$ 3,930,492		\$ -	\$ -	\$ 3,930,492
Construction in Progress	7,135,905	2,062,725			9,198,630
Total non-depreciable assets	11,066,397	2,062,725	-	-	13,129,122
Depreciable Assets:					
Buildings and improvements	3,613,078	9,500			3,622,578
Improvements other than buildings	15,029,435				15,029,435
Infrastructure	5,943,565				5,943,565
Distribution System	37,910,677	51,791			37,962,468
Collection System	6,303,437	13,851			6,317,288
Equipment and Vehicles	1,880,191	192,591	(27,619)		2,045,163
Furniture and Fixtures	65,992	-	(16,395)	-	49,597
Total capital assets being depreciated	70,746,375	267,733	(44,014)	-	70,970,094
Accumulated Depreciation:					
Buildings and improvements	(2,181,051)	(66,046)		-	(2,247,097)
Improvements other than buildings	(6,633,349)	(298,074)		-	(6,931,423)
Infrastructure	(2,484,722)	(262,368)		-	(2,747,090)
Distribution System	(18,778,702)	(763,856)		-	(19,542,558)
Collection System	(3,586,015)	(125,874)		-	(3,711,889)
Equipment and Vehicles	(1,359,936)	(108,453)	27,619	-	(1,440,770)
Furniture and Fixtures	(54,370)	(5,914)	16,395	-	(43,889)
Total accumulated depreciation	(35,078,145)	(1,630,585)	44,014	-	(36,664,716)
Business-type activities capital assets, net	\$ 46,734,627	\$ 699,873	\$ -	\$ -	\$ 47,434,500

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 5: CAPITAL ASSETS (Continued)**

Depreciation expense was charged as a direct expense to programs of the primary government as follows:

Governmental activities:	
Administrative	\$ 6,998
Finance	9,041
Fleet Maintenance	1,240
Police	111,200
Fire & Emergency Medical Services	100,207
Information Technology	8,000
Streets, including infrastructure	1,278,239
Parks & Recreation	166,410
Cemetery	5,712
Library	33,608
Total depreciation expense - governmental activities	<u>\$ 1,720,655</u>
Business-type activities:	
Water and Sewer	\$ 798,291
Airport	324,946
PPCMWD No. 1	507,348
Total depreciation expense - business-type activities	<u>\$ 1,630,585</u>

**NOTE 6: LEASES**

**A. Operating Leases – Lessor**

The City is the lessor under operating leases of several pieces of property under various terms and expiration dates including many month-to-month rentals, such as T-hangers at the municipal airport. None of these leases are non-cancelable nor contain contingent rentals.

**B. Capital Leases - Lessee**

The City has committed under various noncancelable lease/purchase agreements for vehicles and airport T-hangers. Future minimum lease/purchase commitments are as follows:

	Business-type Activities
2017	\$ 58,423
2018	42,551
2019	42,551
2020	42,551
2021	67,190
Total debt service requirements	<u>253,266</u>
Less: Interest Portion	39,205
Debt Principal	<u>\$ 214,061</u>

The City rents the airport T-hangers to individuals on a monthly basis for approximately \$150 per unit per month.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 6:      LEASES (Continued)**

Assets under lease and related accumulated depreciation are as follows:

	Business-type Activities
Buildings	\$ 660,250
Equipment and vehicles	129,477
Less: Accumulated depreciation	(219,803)
Net	<u>\$ 569,924</u>

**NOTE 7:      LONG-TERM LIABILITIES**

**A.      Special Assessment Debt**

The City has obtained loans in the form of grants from the Texas Capital Fund administered by the Texas Department of Agriculture through the Office of Rural Community Affairs. The purpose of the grants are for capital acquisition and/or rehabilitation of facilities needed for new manufacturing entities who relocated to Mineral Wells or existing manufacturing or service companies who expand operations in Mineral Wells. The loans will be repaid to the State by the City from lease revenues received from the companies who lease the facilities from the City.

The term of the leases coincide with the loans which are amortized over 20 years at 0.00% interest payable in monthly installments. The City is obligated in some manner to the State for the repayment of the loans; however, should the business default on its obligation to the City, the State shall suspend the repayment terms until another occupant for the facility can be found. Due to the nature of the loan, the City has accounted for the loans as special assessment debt in the governmental activities column of the statement of net assets. The debt service fund has been used to record the receivable and deferred revenue from the lease of the facilities.

The tenants of the facilities have options to purchase the facilities at any time after the expiration of five years from the date the State contract is closed-out. The purchase price is the original amount of the loan less the sum of (a) the full amount of all fixed rental payments actually received by the City; and (b) any and all amounts actually paid by the tenant to the City under the project agreement as a result of recoupment of Texas Capital Fund grant by the Texas Department of Agriculture.

The annual debt service requirements to maturity for the special assessment debt are as follows:

	<u>Principal</u>
2017	237,083
2018	212,917
2019	196,250
2020	196,250
2021	196,250
2022-2026	813,163
2027-2031	598,678
2032-2036	177,105
Total	<u>\$ 2,627,696</u>



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

**B. Revenue Bonds**

The Palo Pinto County Municipal Water District No. 1 has issued revenue bonds that are secured solely by net revenues of the District. At year end the following revenue bonds were outstanding:

\$2,400,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009A - due in annual installments at 0% to 6/1/2029.	1,560,000
\$3,200,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009B - due in annual installments at 2.63% to 3.68% to 6/1/2028.	2,290,000
\$6,990,000; Palo Pinto County Muni Water District #1 Revenue Refunding Bonds Series 2011 - due in annual installments at 2.00% to 3.375% to 6/1/2023.	2,555,000
\$9,915,000; Palo Pinto County Muni Water District #1 Revenue Bonds Series 2015A - due in annual installments at .45% to 3.21% to 7/1/2045.	9,915,000
\$7,185,000; Palo Pinto County Muni Water District #1 Revenue Bonds Series 2015B - due in annual installments at .77% to 3.68% to 7/1/2045.	<u>7,185,000</u>

Total Palo Pinto Municipal Water District No. 1	<u>23,505,000</u>
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Total Revenue Bonds	<u><u>\$ 23,505,000</u></u>
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The aggregate debt service payments to maturity of the revenue bonds are as follows:

	Business-type Activities		
	Principal	Interest	Total
2017	1,035,000	622,374	1,657,374
2018	1,050,000	608,346	1,658,346
2019	1,070,000	590,984	1,660,984
2020	1,080,000	572,025	1,652,025
2021	1,110,000	550,002	1,660,002
2022-2026	4,715,000	2,393,049	7,108,049
2027-2031	3,445,000	1,905,705	5,350,705
2032-2036	3,055,000	1,473,868	4,528,868
2037-2041	3,595,000	943,653	4,538,653
2042-2045	3,350,000	290,512	3,640,512
Total	<u>\$ 23,505,000</u>	<u>\$ 9,950,518</u>	<u>\$ 33,455,518</u>

**C. Compliance with Debt Service Requirements**

*Palo Pinto County Municipal Water District No. 1*

The provisions of the bond ordinance of the Series Revenue Bonds, Series 2009A and 2009 B resolutions require a "Reserve Fund" be established for the bonds issued by the District depositing \$5,877 on the 25<sup>th</sup> of each month beginning July 25, 2009 and continuing each subsequent month until a balance of \$352,626 is



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

obtained. The District is in compliance with requirements. The balance in the reserve at September 30, 2016 was \$364,000.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 resolutions require a "Reserve Fund" equal to the average annual debt service requirements over the life of the bonds to be maintained. The average annual debt service requirement for the remaining life of the bonds was \$551,162 and the balance in the reserve was \$411,000 at September 30, 2016.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 require a "Contingency Fund" of \$250,000 to be maintained. Monthly deposits of \$3,334 are required to be made when the "Contingency Fund" falls below the required balance. At September 30, 2016, the "Contingency Fund" had a balance of \$250,000.

The provisions of the bond ordinance of the Series Revenue Bonds, Series 2015A and 2015B resolutions require a "Reserve Fund" equal to the average annual debt service requirements over the life of the bonds to be maintained. The average annual debt service requirement for the remaining life of the bonds was \$902,337 and the balance in the reserve was \$912,000 at September 30, 2016.

The following is a summary of the restricted cash and investments of the business-type activities.

	<u>Cash</u>	<u>Investments</u>
Water and sewer fund		
Customer deposits	\$ -	\$ 309,008
PPCMWD No. 1		
Interest and Sinking Funds	-	558,212
Contingency Funds	-	250,000
Reserve Funds	-	1,687,000
Construction Funds	15,606,802	-
Total PPCMWD No. 1	<u>15,606,802</u>	<u>2,495,212</u>
 Total Business-type activities	 <u>\$ 15,606,802</u>	 <u>\$ 2,804,220</u>

**D. Sales Tax Refund Payable**

During 2015 the Texas Comptroller of Public Accounts informed the City that \$1,108,654 in sales taxes had been paid to the City in error. The amount will be deducted from the City's sales tax payments beginning with \$6,193 in October 2015 followed by 179 monthly deductions of \$6,159 from November 2015 through September 2030. The balance at September 30, 2016 was \$1,034,712.

**Changes in Long-term Liabilities**

The following is a summary of long-term liability transactions of the city for the year ended September 30, 2016.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

	9/30/2015	Additions	Retirements	9/30/2016	Due Within One Year
Governmental Activities.:					
General Obligation Bonds	\$ 84,086	\$ -	\$ 84,086	\$ -	\$ -
Tax Note	80,000	-	80,000	-	-
Bond Premiums	8,730	-	8,730	-	-
Capital Leases	36,339	-	36,339	-	-
Special Assessment Debt	2,838,196	-	210,500	2,627,696	237,083
Net Pension Liability	1,027,033	1,027,033	81,198	1,972,868	-
Compensated Absences Payable	54,979	73,308	54,979	73,308	73,308
Sales Tax Refund Payable	1,108,654	-	73,942	1,034,712	73,908
Total Governmental Activities	5,238,017	1,100,341	629,774	5,708,584	384,299
Business-type Activities:					
General Obligation Bonds	130,914	-	130,914	-	-
Revenue Bonds	7,620,000	17,100,000	1,215,000	23,505,000	1,035,000
Bond Premium	24,881	-	9,012	15,869	-
Capital Leases	274,330	-	60,269	214,061	46,818
Net Pension Liability	449,223	409,378	-	858,601	-
Compensated Absences Payable	28,846	35,844	28,846	35,844	35,844
Total Business-type Activities	8,528,194	17,545,222	1,444,041	24,629,375	1,117,662
Total Long-Term Debt	<u>\$ 13,766,211</u>	<u>\$ 18,645,563</u>	<u>\$ 2,073,815</u>	<u>\$ 30,337,959</u>	<u>\$ 1,501,961</u>

The compensated absences payable were earned in the funds as follows: general fund \$73,308, water and sewer fund \$34,107 and airport operations fund \$1,737.

**NOTE 8: RELATED ORGANIZATIONS**

The Industrial Development Corporation of Mineral Wells (the "Development Corporation") – organized pursuant to the Development Corporation Act of 1979, 1979 Tex. Gen. Laws, Chapter 700, Section 1, at 1675, was created February 11, 1980 to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises and to promote and encourage employment and the public welfare. The Development Corporation is a nonprofit corporation governed by a ten member Board of Directors each of whom is appointed by the City. In addition, the City is entitled to approve all programs and expenditures of the Development Corporation including the issuance of debt obligations, acquiring, leasing and/or the selling of or conveying certain properties and the making of loans, for the above stated purpose. The Development Corporation's assets are immaterial to the financial statements of the City of Mineral Wells and, therefore, the Development Corporation has not been included as a component unit of the City for financial reporting purposes.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 9:      RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City entered into an agreement with the Texas Municipal League (TML-IRP) for risk management services. These services include a sharing of risk pool, claims administration and loss control services. TML-IRP is a public entity risk pool currently operating as a common risk management and insurance program for the City of Mineral Wells. The City pays contributions or premiums to the pool for insurance coverage. All risk is then shared among members of the pool. Members of the pool are not subject to additional assessments in the event losses exceed contributions.

The City participates in the Texas Municipal League Joint Self-Insurance Fund for workers compensation coverage. The Texas Municipal League Joint Self-Insurance Fund assesses its members a contribution or premium based on a funding plan developed by the account for workers' compensation. The plan has a stop loss of \$100,000 per occurrence and overall aggregate stop loss of \$300,000 per year for the City. All risk is shared among members of the pool. Members of the pool are not subject to additional assessments in the event losses exceed contributions. Premiums are expensed by the insurance fund when incurred.

There has been no reduction in coverage and the amount of settlements during the past three years has not exceeded the insurance coverage.

**NOTE 10:      DEFINED BENEFIT PENSION PLANS**

**A.      Texas Municipal Retirement System (TMRS)**

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
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**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The plan provisions for the City were as follows:

	<u>Plan Year 2016</u>
Employee deposit rate	5%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20
Updated Service Credit	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating

At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	100
Inactive employees entitled to but not yet receiving benefits	117
Active employees	<u>160</u>
Total	<u><u>377</u></u>

**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.43% and 8.95% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$688,855, and were equal to the required contributions.

**Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial Assumptions:***

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
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**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. These rates were projected on a fully generational basis by scale BB to account to future mortality improvements. For disable annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan Assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

*Discount Rate*

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$28,794,281	\$27,363,637	\$ 1,430,644
Changes for the year:			
Service cost	793,213	-	793,213
Interest	2,002,024	-	2,002,024
Change of benefit terms	-	-	-
Difference between expected and actual experience	(556,504)	-	(556,504)
Changes of assumptions	154,810	-	154,810
Contributions - employer	-	677,539	(677,539)
Contributions - employee	-	358,271	(358,271)
Net investment income	-	40,373	(40,373)
Benefit payments, including refunds of employee contributions	(1,181,095)	(1,181,095)	-
Administrative expense	-	(24,593)	24,593
Other changes	-	(1,215)	1,215
Net changes	1,212,448	(130,720)	1,343,168
Balance at 12/31/2015	<u>\$30,006,729</u>	<u>\$27,232,917</u>	<u>\$ 2,773,812</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 6,849,239	\$ 2,773,812	\$ (577,880)



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
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**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016 the city recognized pension expense of \$745,532.

At September 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 581,894
Changes in actuarial assumptions	109,008	-
Difference between projected and actual investment earnings	1,700,395	-
Contributions subsequent to the measurement date	498,987	-
Total TMRS	<u>\$ 2,308,390</u>	<u>\$ 581,894</u>

\$498,987 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	TMRS
Year Ended September 30:	
2017	198,213
2018	257,648
2019	396,629
2020	375,019
2021	-
Thereafter	-
Total	<u>\$ 1,227,509</u>



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
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**B. Texas Emergency Services Retirement System (TESRS)**

Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The System issues a stand-alone financial report that is available to the public at [www.tesrs.org](http://www.tesrs.org). At August 31, 2015, there were 197 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

Benefits Provided

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefits formulas and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2015, total contributions (dues, prior service, and interest on prior service financing) of \$3,515,546 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,637,308 for the fiscal year ending August 31, 2015. The City's contributions for the years ended September 30, 2016 and 2015 were \$7,956 and \$10,224, respectively.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed below.

The most recent completed biennial actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses.

Net Pension Liability

The System's net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014 and rolled forward to August 31, 2015.

	System 100.00%	City 0.22%
Total Pension Liability	\$ 115,520,991	\$ 249,525
Plan Fiduciary Net Position	88,828,460	191,869
Net Pension Liability	<u>\$ 26,692,531</u>	<u>\$ 57,656</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.9%	76.9%

*Actuarial Assumptions*



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (4.45%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Arithmetic)
Equities		
Large cap domestic	32.0%	5.2%
Small cap domestic	10.0%	5.8%
Developed international	21.0%	5.5%
Emerging markets	6.0%	5.4%
Master limited partnership	5.0%	7.1%
Fixed income		
Domestic	21.0%	1.4%
International	5.0%	1.6%
Cash	0.0%	0.0%
Total	100.0%	

*Discount Rate*

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's Proportional Share of the Net Pension Liability	\$ 100,881	\$ 57,656	\$ 32,748

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At August 31, 2016, the City reported a liability of \$57,656 for its proportionate share of the TESRS's net pension liability. The net pension liability was measured as of August 31, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability (.216%) was based on the District's contributions to the pension plan relative to the contribution of all employers to the plan for the period September 1, 2014 through August 31, 2015.

For the year ended September 30, 2016, the City recognized pension expense of \$6,674.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	1,476	-
Contributions subsequent to the measurement date	7,956	-
Total TESRS	\$ 9,432	\$ -

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

The \$7,956 reported as deferred outflows of resources related to pensions resulting from contributions paid to TESRS subsequent to the measurement date will be recognized as a reduction to the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>TESRS</u>
Year Ended September 30:	
2017	(350)
2018	(349)
2019	(349)
2020	2,524
2021	-
Thereafter	-
Total	<u>\$ 1,476</u>

**NOTE 11: OTHER POSTEMPLOYMENT BENEFITS**

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The city's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$18,921, \$17,122, and \$16,374, respectively, which equaled the required contributions each year.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 12:     HAIL DAMAGE AND INSURANCE RECOVERIES**

In May 2013, a hail storm directly impacted the City causing significant damage to City owned property. Management expects insurance to cover the cost to repair the property less the City's deductible. Insurance received was related to the hail damage. The insurance recoveries were reported as other financing sources in the general fund, nonoperating revenues in the water and sewer and airport funds, and general revenues in the government-wide statement of activities. The City expects to complete the repairs in the 2017 fiscal year.

**NOTE 13:     CONTINGENT LIABILITIES**

**A. Federal and State Programs**

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the grantor agency.

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the City has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of the City's administration, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

**NOTE 14:     CONTRACTS AND COMMITMENTS**

**A. Turkey Peak Project**

In 2009, the Palo Pinto County Municipal Water District No. 1 issued \$5,600,000 Subordinate Revenue Bonds, \$2,400,000 from the Texas Water Development Board's Economically Distressed Areas Program and \$3,200,000 from the Texas Water Development Board's Water Infrastructure Fund for the Turkey Peak Project. The District also received a grant of \$2,400,000 from the Texas Water Development Board's Economically Distressed Areas Program for the Turkey Peak Project. The total amount budgeted for the project is \$8,000,000. As of September 30, 2016, all of the funds of the project have been spent.

November 19, 2015, the District issued \$17,100,000 bonds that were purchased by the Texas Water Development Board's State Water Implementation Revenue Fund for Texas. The funds are to be used for the Turkey Peak Reservoir Project. \$906,040 of the funds have been spent as of September 30, 2016.

**NOTE 15:     EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events were evaluated through February 17, 2017, which is the date the financial statements were available to be issued.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 17: FUTURE ACCOUNTING PRONOUNCEMENTS**

The Government Accounting Standards Board has issued several statements that will be effective in future years. The City has not yet determined the effect these statements will have on its financial reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* replaces the requirements of Statements No. 45 and No. 57 for accounting and financial reporting of postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures* will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial users. This Statement is effective for fiscal years beginning after December 15, 2015.

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## **REQUIRED SUPPLEMENTARY INFORMATION**



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## EXHIBIT F-1

CITY OF MINERAL WELLS, TEXAS  
General FundSchedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the year ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 3,517,132	\$ 3,517,132	\$ 3,419,844	(97,288)
Sales and use tax	3,375,000	3,375,000	2,973,115	(401,885)
Franchise	1,285,000	1,285,000	1,253,662	(31,338)
Licenses and Permits	77,550	77,550	84,814	7,264
Intergovernmental Revenue	306,000	306,000	364,255	58,255
Charges for service	886,500	886,500	786,613	(99,887)
Fines	372,500	372,500	359,512	(12,988)
Interest income	5,000	5,000	23,797	18,797
Cemetery	68,300	68,300	92,188	23,888
Miscellaneous revenues	54,000	54,000	121,127	67,127
Total revenues	<u>9,946,982</u>	<u>9,946,982</u>	<u>9,478,927</u>	<u>(468,055)</u>
Expenditures:				
Current				
Administrative	2,750,811	2,750,811	1,796,555	954,256
Finance	669,273	669,273	623,072	46,201
Fleet Maintenance	773,646	773,646	625,330	148,316
Police	2,876,560	2,876,560	2,805,309	71,251
Fire & Emergency Medical Services	1,880,994	1,880,994	1,740,095	140,899
Inspections	357,506	357,506	325,687	31,819
Information Technology	462,460	462,460	578,213	(115,753)
Streets	1,279,935	1,279,935	1,159,568	120,367
Sanitation	124,786	124,786	128,373	(3,587)
Parks & Recreation	881,100	881,100	1,023,804	(142,704)
Cemetery	312,279	312,279	284,276	28,003
Library	404,068	404,068	455,229	(51,161)
Debt Service:				
Principal	36,339	36,339	36,339	-
Interest and fiscal charges	257	257	258	(1)
Debt issuance costs				-
Total expenditures	<u>12,810,014</u>	<u>12,810,014</u>	<u>11,582,108</u>	<u>1,227,906</u>
Excess (deficiency) of revenue over (under) expenditures)	\$ <u>(2,863,032)</u>	\$ <u>(2,863,032)</u>	\$ <u>(2,103,181)</u>	<u>759,851</u>
Other financing sources (uses):				
Proceeds from sale of general fixed assets	1,000	1,000	2,200	1,200
Insurance proceeds	1,253,475	1,253,475	187,278	(1,066,197)
Issuance of capital lease	-	-	-	-
Transfers in	732,971	732,971	832,856	99,885
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Net change in fund balances	(1,075,586)	(1,075,586)	(1,280,847)	(205,261)
Fund balance, October 1, 2015	<u>4,568,604</u>	<u>4,568,604</u>	<u>4,568,604</u>	<u>-</u>
Fund balance, September 30, 2016	\$ <u><u>3,493,018</u></u>	\$ <u><u>3,493,018</u></u>	\$ <u><u>3,287,757</u></u>	<u><u>(205,261)</u></u>

The accompanying notes to required supplementary  
information are an integral part of this schedule

CITY OF MINERAL WELLS, TEXAS  
Schedule of Changes in Net Pension Liability and Related Ratios  
Texas Municipal Retirement System  
Last 10 Years (will ultimately be displayed)

**EXHIBIT F-2**

	2014	2015
<b>Total Pension Liability</b>		
Service Cost	\$ 721,608	\$ 793,213
Interest (on the Total Pension Liability)	1,930,010	2,002,024
Changes of benefit terms (TMRS Plan Participation)	-	-
Difference between expected and actual experience	(439,509)	(556,504)
Change of assumptions	-	154,810
Benefit payments, including refunds of employee contributions	(1,257,183)	(1,181,095)
Net Change in Total Pension Liability	954,926	1,212,448
Total Pension Liability - Beginning	27,839,355	28,794,281
Total Pension Liability - Ending	<u>\$ 28,794,281</u>	<u>\$ 30,006,729</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 699,904	\$ 677,539
Contributions - Employee	346,582	358,271
Net Investment Income	1,492,992	40,373
Benefit payments, including refunds of employee contributions	(1,257,183)	(1,181,095)
Administrative Expense	(15,587)	(24,593)
Other	(1,282)	(1,215)
Net Change in Plan Fiduciary Net Position	1,265,426	(130,720)
Plan Fiduciary Net Position - Beginning	26,098,211	27,363,637
Plan Fiduciary Net Position - Ending	<u>\$ 27,363,637</u>	<u>\$ 27,232,917</u>
<b>Net Pension Liability Ending</b>	<b>\$ 1,430,644</b>	<b>\$ 2,773,812</b>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.03%	90.76%
Covered Employee Payroll	\$ 6,893,077	\$ 7,165,427
Net Pension Liability as a Percentage of Covered Employee Payroll	20.75%	38.71%

The accompanying notes to required supplementary information are an integral part of this schedule



**EXHIBIT F-3**

CITY OF MINERAL WELLS, TEXAS  
Schedule of Contributions  
Texas Municipal Retirement System  
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 704,511	\$ 692,708	\$ 688,855
Contributions in relation to the actuarially determined contribution	<u>\$ 704,511</u>	<u>\$ 692,708</u>	<u>\$ 688,855</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 6,822,411	\$ 7,134,246	\$ 7,648,881
Contributions as a percentage of covered employee payroll	10.33%	9.71%	9.01%

The accompanying notes to required supplementary information are an integral part of this schedule

**EXHIBIT F-4**

CITY OF MINERAL WELLS, TEXAS  
Schedule of the City's Proportionate Share of the Net Pension Liability  
Texas Emergency Services Retirement System  
Last 10 Years (will ultimately be displayed)

	2014	2015
Proportion of the Net Pension Liability (Asset)	0.00251	0.00216
Proportionate Share of Net Pension Liability (Asset)	\$ 45,611	\$ 57,656
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the City	23,297	30,652
Total	\$ 68,908	\$ 88,308
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.46%	76.89%

The accompanying notes to required supplementary information are an integral part of this schedule

**EXHIBIT F-5**

CITY OF MINERAL WELLS, TEXAS  
Schedule of Contributions  
Texas Emergency Services Retirement System  
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually Required Contribution	\$ 11,376	\$ 10,224	\$ 7,956
Contributions in relation to the contractually required contribution	<u>\$ 11,376</u>	<u>\$ 10,224</u>	<u>\$ 7,956</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to required supplementary  
information are an integral part of this schedule





**City of Mineral Wells**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2016**

**Note 2.        Schedule of Contributions – Texas Municipal Retirement System (Continued)**

Mortality                      RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information

Notes                              There were no benefit changes during the year.

**Note 3.        Schedule of Contributions – Texas Emergency Services Retirement System**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Actuarial assumptions and methods as of the latest actuarial valuation are as follows:

Valuation Date

August 31, 2014

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoother by a 5-year deferred recognition method with a 80%/120% corridor on market value
Inflation	3.50%
Salary Increases	N/A
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA

Other Information

Notes                              There were no benefit changes during the year.

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**COMBINING FINANCIAL STATEMENTS**  
**NONMAJOR GOVERNMENTAL FUNDS**

CITY OF MINERAL WELLS, TEXAS  
Nonmajor Governmental Funds  
Combining Balance Sheet  
September 30, 2016

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds
Assets:					
Cash	\$ 1,085	\$ 9,994	\$ 119,451	\$ 40,047	\$ 170,577
Investments	-	-	-	49,809	49,809
Taxes receivable	-	-	67,807	-	67,807
Due from other funds	-	-	17,181	-	17,181
Total assets	<u>\$ 1,085</u>	<u>\$ 9,994</u>	<u>\$ 204,439</u>	<u>\$ 89,856</u>	<u>\$ 305,374</u>
Liabilities and fund balance:					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:					
Nonspendable	-	-	-	-	-
Restricted	1,085	9,994	204,439	89,856	305,374
Unassigned	-	-	-	-	-
Total fund balance	<u>1,085</u>	<u>9,994</u>	<u>204,439</u>	<u>89,856</u>	<u>305,374</u>
Total liabilities and fund balances	<u>\$ 1,085</u>	<u>\$ 9,994</u>	<u>\$ 204,439</u>	<u>\$ 89,856</u>	<u>\$ 305,374</u>

EXHIBIT G-1

Texas Capital Fund	Capital Projects		Permanent Fund	Total Nonmajor Funds
	Street Capital Projects Fund	Total Capital Projects Funds		
\$ -	\$ 19,095	\$ 19,095	\$ 73,538	\$ 263,210
-	-	-	449,671	499,480
-	-	-	-	67,807
-	-	-	-	17,181
\$ -	\$ 19,095	\$ 19,095	\$ 523,209	\$ 847,678
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	520,798	520,798
-	-	-	2,411	307,785
-	19,095	19,095	-	19,095
-	19,095	19,095	523,209	847,678
\$ -	\$ 19,095	\$ 19,095	\$ 523,209	\$ 847,678



CITY OF MINERAL WELLS, TEXAS  
Nonmajor Governmental Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
For the fiscal year ended September 30, 2016

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds
Revenues:					
Property taxes	\$ -	\$ -	\$ 86,105	\$ -	\$ 86,105
Occupancy taxes	197,090	-	-	-	197,090
Intergovernmental revenue	-	-	-	-	-
Interest	883	59	-	152	1,094
Cemetery	-	-	-	-	-
Miscellaneous revenues	-	11,298	-	-	11,298
Total revenue	197,973	11,357	86,105	152	295,587
Expenditures:					
Current:					
Police	-	7,111	-	-	7,111
Streets	-	-	-	-	-
Economic Development	-	-	8,548	176,453	185,001
Hotel/Motel Occupancy	196,105	-	-	-	196,105
Total expenditures	196,105	7,111	8,548	176,453	388,217
Excess (deficiency) of revenue over (under) expenditures	1,868	4,246	77,557	(176,301)	(92,630)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(985)	(100,000)	-	-	(100,985)
Net change in fund balances	883	(95,753)	77,557	(176,301)	(193,615)
Fund balance, October 1, 2015	202	105,748	126,882	266,157	498,989
Fund balance, September 30, 2016	\$ 1,085	\$ 9,994	\$ 204,439	\$ 89,856	\$ 305,374

EXHIBIT G-2

Texas Capital Fund	Capital Projects		Permanent Fund  Woodland Park	Total Nonmajor Funds
	Street Capital Projects Fund	Total Capital Projects Funds		
\$ -	\$ -	\$ -	\$ -	\$ 86,105
-	-	-	-	197,090
22,750	-	22,750	-	22,750
-	1	1	1,295	2,390
-	-	-	9,036	9,036
-	-	-	-	11,298
22,750	1	22,751	10,331	328,669
-	-	-	-	7,111
-	163,051	163,051	-	163,051
22,750	-	22,750	-	207,751
-	-	-	-	196,105
22,750	163,051	185,801	-	574,018
-	(163,050)	(163,050)	10,331	(245,349)
-	200,000	200,000	-	200,000
-	-	-	-	(100,985)
-	36,950	36,950	10,331	(146,334)
-	(17,855)	(17,855)	512,878	994,012
\$ -	\$ 19,095	\$ 19,095	\$ 523,209	\$ 847,678

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**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and City Council  
City of Mineral Wells, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mineral Wells, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 17, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*George Morgan Jones, P.C.*

Weatherford, Texas

February 17, 2017

February 17, 2017

Honorable Mayor and City Council Members  
City of Mineral Wells

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate remaining fund information, each major fund and the aggregate remaining fund information of the City of Mineral Wells, Texas for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated December 1, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Mineral Wells, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were the estimate of the allowance for uncollectible receivables as described in Note 1 to the financial statements. We have performed tests of the allowance for uncollectible receivables to satisfy ourselves as to their reasonableness in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

**George, Morgan & Sneed, P.C.**

1849 Wall Street | Weatherford, TX 76086-6298 | Phone 817.594.2704 | Fax 817.599.7389

[www.gms-cpa.com](http://www.gms-cpa.com)

### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. See the attached list of misstatements detected as a result of audit procedures that were corrected by management.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the City's financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 17, 2017.

### *Management Consultation with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



### Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and other required supplementary information listed in the table of contents of the annual financial report, which are required supplementary information (RSI) that supplements the basic financial statements.

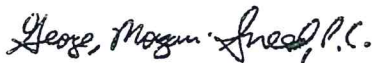
Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance of the RSI.

We were engaged to report on the combining fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Should you desire further information concerning these matters, Mr. Peter Morgan will be happy to meet with you at your convenience.

This information is intended solely for the use of the City Council and management of the City of Mineral Wells, Texas, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



GEORGE, MORGAN & SNEED, P.C.

Prepared by\_\_\_\_\_

**City of Mineral Wells  
Adjusting Journal Entries**

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Reviewed by\_\_\_\_\_

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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
GMS01	Adjusting	09/30/16					
		02-2100-5105-00	TMRS	1,524.00			
		02-2202-5105-00	TMRS	4,195.00			
		02-2300-5105-00	TMRS	2,581.00			
		02-2700-5105-00	TMRS	4,556.00			
		02-3102-5105-00	TMRS	2,089.00			
		02-3300-5105-00	TMRS	1,482.00			
		02-0000-1501-00	DEF OUTFLOW-TMRS INVEST	454,825.00			
		02-0000-2047-00	DEF INFLOW-TMRS ACTUAL		78,111.00		
		02-0000-2299-00	NET PENSION LIABILITY		393,141.00		
		20-4100-5105-00	TMRS		1,977.00		
		20-0000-1501-00	DEF OUTFLOW-TMRS INVEST	21,383.00			
		20-0000-2047-00	DEF INFLOW-TMRS ACTUAL		3,169.00		
		20-0000-2299-00	NET PENSION LIABILITY		16,237.00		
						(14,450.00)	
			To adjust the current year pension liability and deferred outflows/inflows.				
GMS02	Adjusting	09/30/16					
		02-2100-5105-00	TMRS		247.00		
		02-2202-5105-00	TMRS		680.00		
		02-2300-5105-00	TMRS		418.00		
		02-2700-5105-00	TMRS		738.00		
		02-3102-5105-00	TMRS		338.00		
		02-3300-5105-00	TMRS		240.00		
		02-0000-1500-00	DEF OUTFLOW OF RESOURCE	2,661.00			
		20-4100-5105-00	TMRS	371.00			
		20-0000-1500-00	DEF OUTFLOW OF RESOURCE		371.00		
						2,290.00	
			To adjust for the change in deferred outflows for contributions.				
GMS03	Adjusting	09/30/16					
		01-0000-2010-00	ACCOUNTS PAYABLE	214,347.79			
		01-0000-1070-00	DUE FROM OTHER FUNDS		217,097.46		
		01-2000-5626-00	OPERATING SUPPLIES	2,749.67			
		02-0000-2010-00	ACCOUNTS PAYABLE		91,087.59		
		02-0000-2070-00	DUE TO OTHER FUNDS	91,087.59			
		11-0000-2010-00	Accounts Payable		137,253.39		
		11-0000-2070-00	DUE TO OTHER FUNDS	137,253.39			
		20-0000-2010-00	ACCOUNTS PAYABLE	11,243.52			
		20-0000-2070-00	DUE TO OTHER FUNDS		11,243.52		
						(2,749.67)	
			To adjust AP to the AP Opent Items Report.				
GMS04	Adjusting	09/30/16					
		01-0000-1260-05	A/R - MUNICIPAL COURT	4,176.70			
		01-0000-2045-00	DEFERRED REV - MUNICIPAL		4,176.70		
						0.00	

Prepared by\_\_\_\_\_

**City of Mineral Wells**  
**Adjusting Journal Entries**

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Reviewed by\_\_\_\_\_

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
			To adjust court receivable to current year.				
GMS05	Adjusting	09/30/16					
		01-1100-5100-00	SALARIES	1,278.92			
		01-1500-5100-00	SALARIES	1,687.04			
		01-1700-5100-00	SALARIES	559.80			
		01-1900-5100-00	SALARIES	684.50			
		01-2000-5100-00	SALARIES	8,511.14			
		01-2400-5100-00	SALARIES	1,298.98			
		01-2600-5100-00	SALARIES	882.40			
		01-3101-5100-00	SALARIES	1,982.29			
		01-5100-5100-00	SALARIES	1,596.82			
		01-5300-5100-00	SALARIES	771.75			
		01-5500-5100-00	SALARIES	857.88			
		01-2400-5100-00	SALARIES	7,496.68			
		01-0000-2010-01	WAGES PAYABLE		27,608.20		
		02-2100-5100-00	SALARIES	1,327.92			
		02-2202-5100-00	SALARIES	2,452.12			
		02-2300-5100-00	SALARIES	1,661.55			
		02-2700-5100-00	SALARIES	2,309.48			
		02-3102-5100-00	SALARIES	1,527.09			
		02-3300-5100-00	SALARIES	839.43			
		02-0000-2010-01	WAGES PAYABLE		10,117.59		
		20-4100-5100-00	SALARIES	550.21			
		20-0000-2010-01	WAGES PAYABLE		550.21		
						(38,276.00)	
			To adjust accrued wages for gross wages rather than net.				
GMS06	Adjusting	09/30/16					
		02-2100-5810-00	BAD DEBT EXPENSE		5,975.12		
		02-0000-2035-00	ALLOWANCE FOR BAD DEBT		12,924.96		
		02-0000-2100-00	METER DEPOSITS	4,905.90			
		02-0000-1260-00	ACCOUNTS RECEIVABLE	13,994.18			
						5,975.12	
			To adjust utility AR, deposits, and allowance for bad debt.				
GMS07	Adjusting	09/30/16					
		15-0000-3010-00	Fund Balance/Retained Earnings	73,307.76			
		15-0000-2010-02	Vacation Payable		73,307.76		
		02-0000-2010-02	VACATION PAYABLE		7,482.97		
		02-2100-5100-00	SALARIES	1,075.15			
		02-2202-5100-00	SALARIES	799.59			
		02-2300-5100-00	SALARIES	3,691.00			
		02-2700-5100-00	SALARIES	949.91			
		02-3102-5100-00	SALARIES	52.64			
		02-3300-5100-00	SALARIES	914.68			
		20-0000-2010-02	VACATION PAYABLE	485.18			
		20-4100-5100-00	SALARIES		485.18		
						(6,997.79)	
			To adjust accrued vacation payable.				



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**City of Mineral Wells  
Adjusting Journal Entries**

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Reviewed by\_\_\_\_\_

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
GMS08	Adjusting	09/30/16					
		15-0000-1011-00	AMT AVAILABLE IN DEBT SEI	176,468.52			
		15-0000-1013-00	AMOUNT TO BE PROVIDED - I		376,702.16		
		15-0000-2025-08	REFUNDING BONDS	83,894.00			
		15-0000-2017-09	N/P US BANK	36,339.64			
		15-0000-2017-07	NOTE PAYABLE - WELLS FAR	80,000.00			
		02-0000-2400-00	ACCRUED REV BOND INT PA	655.33			
		02-0000-1206-00	UNAMORTIZED BOND INS PR	6,632.23			
		02-0000-2237-00	REFUNDING BONDS	130,914.00			
		02-2100-5952-00	BOND PRINCIPAL		131,595.00		
		02-2100-5956-00	BOND INTEREST		6,606.56		
			To adjust for bonds and lease that were paid off.			138,201.56	
GMS09	Adjusting	09/30/16					
		15-0000-2030-01	TX CAPT FUND - NOMA (RAC/	23,750.04			
		15-0000-2030-02	TX CAPT FUND - NOMA	24,999.96			
		15-0000-2030-03	TX CAPT FUND - COX COMM	20,000.00			
		15-0000-2030-05	TX CAPT FUND - TRU TEST	13,250.04			
		15-0000-2030-07	WATKINS METAL	24,503.04			
		15-0000-2030-09	PECO LEASE	500.00			
		15-0000-2030-11	TX CAPT FUND VENTAMATIC	35,000.04			
		15-0000-2030-10	TX CAPT FUND-VALAIR	25,500.00			
		15-0000-2030-12	TX CAPITAL FUND - TRU TES	10,249.92			
		15-0000-2030-13	TX CAPITAL FUND - WATKINS	11,749.12			
		15-0000-2030-14	TX CAPITAL FUND - PECO	6,000.00			
		15-0000-2030-06	LEASE PAYABLE - VENTAMA	15,000.00			
		15-0000-1013-00	AMOUNT TO BE PROVIDED - I	2,916.67			
		15-0000-1014-00	AMT TO BE PROVIDED - RACA		23,750.04		
		15-0000-1016-00	AMT TO BE PROVIDED - NOM		24,999.96		
		15-0000-1018-00	AMT TO BE PROVIDED - COX		20,000.00		
		15-0000-1020-00	AMT TO BE PROVIDED - TRU		23,499.96		
		15-0000-1021-00	AMT TO BE PROVIDED - VENT		15,000.00		
		15-0000-1022-00	WATKINS METAL		36,252.16		
		15-0000-1023-00	AMT TO BE PROVIDED - MXR		2,916.67		
		15-0000-1024-00	AMT TO BE PROVIDED - PECO		6,500.00		
		15-0000-1025-00	AMOUNT TO BE PROVIDED - \		25,500.00		
		15-0000-1026-00	AMT TO BE PROVIDED VENT		35,000.04		
			To adjust TX Capital Fund loan balances in the GLTDAG.			0.00	
GMS10	Adjusting	09/30/16					
		14-0000-1140-00	TAXES RECEIVABLE	67,806.70			
		14-0000-1070-00	DUE FROM OTHER FUNDS	17,181.04			
		14-0000-4110-00	PROPERTY TAXES - CURRENT		84,987.74		
		01-0000-2070-00	DUE TO OTHER FUNDS		17,181.04		
		01-0000-4110-00	PROPERTY TAXES - CURRENT	17,181.04			
			To record Tiff Zone revenue and receivable.			67,806.70	6040

Prepared by\_\_\_\_\_

**City of Mineral Wells  
Adjusting Journal Entries**

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Reviewed by\_\_\_\_\_

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
GMS11	Adjusting	09/30/16					
		01-0000-1141-00	ALLOWANCE FOR UNCOLLEC		22,141.42		
		01-0000-2040-00	DEFERRED TAX REVENUE	22,141.42			
		09-0000-1141-00	ALLOWANCE FOR UNCOLLEC	4,698.19			
		09-0000-2040-00	DEFERRED TAX REVENUE		4,698.19		
		To adjust allowance to 70% of receivable.				0.00	6015
GMS12	Adjusting	09/30/16					
		01-0000-1260-00	ACCOUNTS RECEIVABLE	26,170.68			
		01-0000-4110-00	PROPERTY TAXES - CURRENT		20,692.21		
		01-0000-4190-00	PROPERTY TAXES - DELINQU		1,767.71		
		01-0000-4191-00	PROPERTY TAXES - P & I		3,710.76		
		09-0000-1260-00	ACCOUNTS RECEIVABLE	599.07			
		09-0000-4110-00	PROPERTY TAX - CURRENT		172.01		
		09-0000-4190-00	PROPERTY TAX - DELINQUEN		250.89		
		09-0000-4191-00	PROPERTY TAX - PEN & INT		176.17		
		To record a receivable for 2 property tax checks not received (reverse 10/1/16).				26,769.75	
GMS13	Adjusting	09/30/16					
		20-0000-4020-00	GAS & OIL CASH SALES	3,034.65			
		20-0000-4025-00	GAS & OIL CREDIT CARD SALE	10,159.00			
		20-0000-1260-00	ACCOUNTS RECEIVABLE		13,193.65		
		To adjust airport receivable to QuickBooks report.				(13,193.65)	
GMS14	Adjusting	09/30/16					
		01-0000-1260-02	A/R - AMBULANCE BILLING	372,536.85			
		01-0000-1260-06	Allowance for Doubt Accts-EMS		332,135.59		
		01-0000-2041-00	DEFERRED REVENUE - EMS		27,870.23		
		01-0000-4425-00	AMBULANCE FEES		12,531.03		
		To adjust ambulance receivable, allowance, and deferred rev.				12,531.03	

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
GMS15	Adjusting	09/30/16					
		02-2100-5980-00	DEPRECIATION EXPENSE	798,290.42			
		02-0000-1425-00	ACCUMULATED DEPRECIATION		798,290.42		
		02-0000-1380-00	VEHICLES & EQUIPMENT		27,619.86		
		02-0000-1390-00	FURNITURE & FIXTURES		16,395.00		
		02-0000-1425-00	ACCUMULATED DEPRECIATION	44,014.86			
		02-0000-1380-00	VEHICLES & EQUIPMENT	161,590.75			
		02-0000-1370-00	COLLECTION SYSTEM	13,850.00			
		02-2700-5708-00	VEHICLES		90,415.00		
		02-2300-5706-00	EQUIPMENT		6,495.00		
		02-2202-5706-00	EQUIPMENT		46,393.75		
		02-2100-5706-00	EQUIPMENT		3,992.00		
		02-3102-5702-00	BUILDING IMPROVEMENTS		13,850.00		
		02-2700-5706-00	EQUIPMENT		7,800.00		
		02-3102-5706-00	EQUIPMENT		6,495.00		
			To record depreciation, additions and deletions for Water			(622,849.67)	
GMS16	Adjusting	09/30/16					
		20-4100-5980-00	DEPRECIATION EXPENSE	324,945.98			
		20-0000-1425-00	ACCUMULATED DEPRECIATION		324,945.98		
		20-0000-1330-00	BUILDINGS	9,500.00			
		20-0000-1380-00	VEHICLES & EQUIPMENT	31,000.00			
		20-4100-5702-00	BUILDING IMPROVEMENTS		9,500.00		
		20-4100-5706-00	EQUIPMENT		31,000.00		
			To record depreciation, additions and deletions for Airport			(284,445.98)	
GMS17	Adjusting	09/30/16					
		01-0000-1260-00	ACCOUNTS RECEIVABLE	42,746.00			
		01-0000-4372-00	MWISD AGRMT - SRO		42,746.00		
			To record MWISD Cops grant receivable.			42,746.00	
GMS18	Adjusting	09/30/16					
		10-1000-5902-00	TRANSFER TO OTHER FUNDS	100,000.00			
		10-1000-5802-00	MISC SVS-CHG		100,000.00		
		71-0000-2043-00	Deferred Revenue 2015A	9,045,263.00			
		71-0000-4820-00	BOND PROCEEDS	1,500,000.00			
		71-0000-2044-00	Deferred Revenue 2015B	6,554,737.00			
		71-7200-5902-00	TRANSFER		17,100,000.00		
		70-0000-1700-00	DUE FROM OTHER FUNDS		17,100,000.00		
		70-0000-4902-00	FUND TRANSFER	17,100,000.00			
		01-0000-2070-00	DUE TO OTHER FUNDS	54,917.21			
		01-2000-5626-00	OPERATING SUPPLIES		8,711.17		
		01-0000-1070-00	DUE FROM OTHER FUNDS		46,206.04		
						(1,491,288.83)	

Prepared by\_\_\_\_\_

**City of Mineral Wells  
Adjusting Journal Entries**

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Reviewed by\_\_\_\_\_

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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
			To reclass balances and balance interfunds.				
GMS19	Adjusting	09/30/16					
		71-7200-5302-16	Financial Advisor	80,250.00			
		71-7200-5302-17	Bond Counsel	100,225.30			
		71-7200-5902-00	TRANSFER		180,475.30		
		70-0000-4902-00	FUND TRANSFER	180,475.30			
		70-0000-1400-00	CONSTRUCTION IN PROGRES		180,475.30		
						(180,475.30)	
			To move the bond issuance costs back to expense. These costs are expensed per GASB 65.				
GMS20	Adjusting	09/30/16					
		09-0000-3010-00	FUND BALANCE/RETAINED E.		352.53		
		09-9000-5956-00	BOND INTEREST	352.53			
						(352.53)	
			To adjust beginning fund balance to the previous audit.				
GMS21	Adjusting	09/30/16					
		01-0000-3010-01	RESERVE FOR INVENTORY		2,577.54		
		01-0000-3010-00	FUND BALANCE/RETAINED E.	2,577.54			
						0.00	
			To adjust nonspendable fund balance to the amount of inventory.				
GMS22	Adjusting	09/30/16					
		01-0000-3010-05	FUND BALANCE RESTRICTED		43,696.39		
		01-0000-3010-00	FUND BALANCE/RETAINED E.	43,696.39			
						0.00	
			To adjust restricted fund balance to the amount of restricted cash accounts.				
GMS23	Adjusting	09/30/16					
		01-0000-3010-04	ASSIGNED FUND BALANCE	619,618.00			
		01-0000-3010-00	FUND BALANCE/RETAINED E.		619,618.00		
						0.00	
			To adjust assigned fund balance to the amount of the FY 2017 general fund budget deficit.				



Prepared by\_\_\_\_\_

**City of Mineral Wells  
Adjusting Journal Entries**

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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
GMS24	Adjusting	09/30/16					
		07-0000-3010-00	FUND BALANCE/RETAINED E.	1,294.61			
		07-0000-3010-04	FUND BALANCE -TEMP REST		1,294.61		
			To adjust cemetery fund fund balance for spendable portion.			0.00	
GMS25	Adjusting	09/30/16					
		02-2100-5812-00	RESALE SUPPLIES		196,500.00		
		02-0000-1090-00	PREPAID ITEMS	196,500.00			
			To reclassify payment to PPCMWD for October 2016.			196,500.00	
GMS26	Adjusting	09/30/16					
		13-0000-2016-00	INVESTMENTS IN FIXED ASSE	1,720,655.03			
		13-0000-1425-00	ACCUMULATED DEPRECIATI		1,720,655.03		
		13-0000-1330-00	BUILDINGS	26,582.50			
		13-0000-1350-00	IMPVTS OTHER THAN BLDGS	177,507.20			
		13-0000-1380-05	EQUIPMENT	52,339.74			
		13-0000-1380-04	VEHICLES	40,848.33			
		13-0000-1390-00	FURNITURE & FIXTURES	9,218.00			
		13-0000-2016-00	INVESTMENTS IN FIXED ASSE		306,495.77		
		13-0000-1380-03	EQUIPMENT - CEMETERY		11,845.50		
		13-0000-1380-05	EQUIPMENT		171,548.39		
		13-0000-1380-04	VEHICLES		39,826.04		
		13-0000-1425-00	ACCUMULATED DEPRECIATI	223,219.93			
			To record depreciation, additions and deletions for general fund			0.00	
GMS27	Adjusting	09/30/16					
		20-4100-5702-00	BUILDING IMPROVEMENTS		146,818.00		
		20-0000-1400-00	CONSTRUCTION IN PROGRES	146,818.00			
		02-2100-5702-00	BUILDING IMPROVEMENTS		268,389.00		
		02-0000-1400-00	CONSTRUCTION IN PROGRES	268,389.00			
		13-0000-1400-00	CONSTRUCTION IN PROGRES	871,807.00			
		13-0000-2016-00	INVESTMENTS IN FIXED ASSE		871,807.00		
			To capitalize construction in progress on roof projects.			415,207.00	
GMS28	Adjusting	09/30/16					
		36-3600-5705-00	16 WATER LINE-HWY 180 W		51,790.00		
		36-0000-4902-00	Transfer in	51,790.00			
		02-0000-1310-00	DISTRIBUTION SYSTEM	51,790.00			
		02-0000-4902-00	TRANSFER IN		51,790.00		

Prepared by\_\_\_\_\_

**City of Mineral Wells  
Adjusting Journal Entries**

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Reviewed by\_\_\_\_\_

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
			To capitalize water line extension along Highway 180 West.			51,790.00	
GMS29	Adjusting	09/30/16					
		13-0000-1380-05	EQUIPMENT	205,307.00			
		13-0000-1380-04	VEHICLES	149,954.00			
		13-0000-1425-00	ACCUMULATED DEPRECIATI	10,106.00			
		13-0000-2016-00	INVESTMENTS IN FIXED ASSE		528,418.00		
		13-0000-1400-00	CONSTRUCTION IN PROGRES	163,051.00			
						0.00	
			To adjust for changes to fixed assets.				
Reclass01	Adjusting	09/30/16					
		01-0000-1070-00	DUE FROM OTHER FUNDS	80,319.00			
		01-0000-2070-00	DUE TO OTHER FUNDS		80,319.00		
						0.00	
			To reclassify interfund balances.				
		TOTAL		<u>43,620,355.46</u>	<u>43,620,355.46</u>	<u>(1,695,262.26)</u>	

Honorable Mayor and City Council Members  
The City of Mineral Wells, Texas

In planning and performing our audit of the financial statements of the City of Mineral Wells, Texas for the year ended September 30, 2016; we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated February 17, 2017, on the financial statements of the City of Mineral Wells, Texas. The following summarizes our comment and recommendation.

**1. Integrated Accounting Software**

Comment:

The City uses QuickBooks Online for the accounts receivable billings of the airport operations and cemetery. Accounts receivable billings are recorded in Incode with journal entries. Deposits are brought to the utility billing payment window and recorded in Incode at that time. This process creates the opportunity for errors. At year end the City was required to make journal entries to adjust these accounts to the QuickBooks subsidiary ledger.

Recommendation:

We recommend the City evaluate the cost effectiveness of using Incode for these activities.

Management's Response:

We will evaluate the cost effectiveness of this Incode module during the upcoming budget process and request the software if funds are available.

**2. Permits**

Comment:

Permits uses MyGov to calculate and issue permits. Customers take their permit to the utility window to pay. There are no controls in permits to make sure that permits are paid. We selected a sample of 25 permits and could not trace the payment for one of the permits selected to a deposit.

Recommendation:

We recommend that permits are not marked as paid in MyGov until they receive a receipt from the utility window for payment. We also recommend a periodic reconciliation of MyGov to payments in Incode.

Management's Response:

We are in the process of implementing a policy to address the MyGov/permit issue.

3. **Purchasing Policy**

Comment:

During the previous audit we selected 25 checks to test for compliance with the City's purchasing policy. 4 of the 25 checks did not have purchase orders. During our previous audit interviews it came to our attention that finance employees responsible for purchasing internal controls were not aware that the City has a written purchasing policy.

During the year no changes were made to policies and procedures.

Recommendation:

We recommend that purchase orders be obtained in accordance with the City's policies. Purchases should not be made or approved without the appropriate documentation.

The City should also create a process so that new employees are provided purchasing and other relevant policy and procedure manuals upon employment.

Management's Response:

Management is working with our new City Attorney to formulate a comprehensive set of financial policy and procedures that will address these recommendations.

This report is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*George, Morgan & Sneed, P.C.*

GEORGE, MORGAN & SNEED, P.C.  
Weatherford, Texas  
February 17, 2017